Cornerstone OnDemand Inc
Form S-1
July 20, 2011

Table of Contents

As filed with the Securities and Exchange Commission on July 20, 2011

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

Cornerstone OnDemand, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**7372**	**13-4068197**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1601 Cloverfield Blvd.

Suite 620 South

Santa Monica, CA 90404

(310) 752-0200

(Address, including zip code, and telephone number,

including area code, of Registrant s principal executive offices)

Adam L. Miller

Chief Executive Officer

Cornerstone OnDemand, Inc.

1601 Cloverfield Blvd.

Suite 620 South

Santa Monica, CA 90404

(310) 752-0200

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

Copies to:

Herbert P. Fockler	**Perry A. Wallack**	**Christopher L. Kaufman**
Rachel B. Proffitt	**Chief Financial Officer**	**Minji Cho**
Wilson Sonsini Goodrich & Rosati, P.C.	**1601 Cloverfield Blvd.**	**Latham & Watkins LLP**
650 Page Mill Road	**Suite 620 South**	**140 Scott Drive**
Palo Alto, CA 94304	**Santa Monica, CA 90404**	**Menlo Park, CA 94025**
(650) 493-9300	**(310) 752-0200**	**(650) 328-4600**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.0001 par value per share	9,775,000	$17.56	$171,649,000	$19,928.45

(1) Includes shares issuable upon the exercise of the underwriters option to purchase additional shares of common stock.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low sales prices of the Registrant s Common Stock on the NASDAQ Global market on July 18, 2011.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission. acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

Subject to Completion. Dated July 20, 2011

Shares

Cornerstone OnDemand, Inc.

Common Stock

Cornerstone OnDemand, Inc. is offering of the shares to be sold in the offering. The selling stockholders identified in this prospectus, which include certain of our executive officers and directors and entities affiliated with members of our board of directors, are offering an additional shares. Cornerstone OnDemand, Inc. will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Our common stock is quoted on the NASDAQ Global Market under the symbol CSOD. The last reported sale price of the common stock on , 2011 was $ per share.

See Risk Factors on page 9 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$	$

Underwriting discount	$	$
Proceeds, before expenses, to Cornerstone OnDemand, Inc.	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from the selling stockholders at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2011.

Goldman, Sachs & Co. **Barclays Capital**

Pacific Crest Securities

William Blair & Company **Piper Jaffray** **JMP Securities**

Needham & Company, LLC

Prospectus dated , 2011.

Table of Contents

TABLE OF CONTENTS

We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this prospectus or in any free writing prospectus we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included elsewhere in this prospectus and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. Unless the context requires otherwise, the terms Cornerstone OnDemand, we, company, us and our refer to Cornerstone OnDemand, Inc. and its wholly owned subsidiaries taken as a whole.

Cornerstone OnDemand, Inc.

Overview

Cornerstone OnDemand is a leading global provider of a comprehensive learning and talent management solution delivered as software-as-a-service. We enable organizations to meet the challenges they face in empowering their people and maximizing the productivity of their human capital. We currently empower over 5.22 million users across 179 countries and 25 languages.

Our solution consists of five integrated platforms for learning management, enterprise social networking, performance management, succession planning and extended enterprise. Our clients use our solution to develop employees throughout their careers, engage all employees effectively, improve business execution, cultivate future leaders and integrate with their external networks of customers, vendors and distributors.

Our over 560 clients include multi-national corporations, large domestic enterprises, mid-market companies, state and local public sector organizations, higher education institutions and non-profit entities, such as Barclays Bank PLC, BJC HealthCare, Flextronics International USA, Inc., Kelly Services, Inc., Liberty Mutual Insurance Company, Pearson, Inc., Starwood Hotels & Resorts Worldwide, Inc., State of Nebraska, Teach for America and Virgin Media Limited. We support multiple client deployments of over 150,000 users, including one client with over 700,000 users.

We sell our solution domestically and internationally through both direct and indirect channels, including direct sales teams in North America and Europe, a global distributor agreement with ADP, and other distributor relationships with payroll, consulting and human resource services companies. We generate most of our revenue from sales of our solution pursuant to multi-year subscription agreements, which typically have terms of three years. We also generate revenue from consulting services for configuration, integration and training, as well as from providing third-party e-learning content.

We have grown our business each of the last 10 years. Since 2002, we have averaged a 95% annual dollar retention rate. Our bookings grew from $24.9 million in 2008 to $34.5 million in 2009 to $60.9 million in 2010, and from $9.2 million in the first three months of 2010 to $14.3 million in the first three months of 2011. Since 2001, our contracted business with existing clients has increased each year. Our net revenue grew from $19.6 million in 2008 to $29.3 million in 2009 to $43.7 million in 2010, and from $9.7 million in the first three months of 2010 to $15.7 million in the first three months of 2011. Our gross revenue was $46.6 million in 2010, before a $2.9 million reduction of revenue related to a non-cash charge for a common stock warrant. There were no reductions of revenue in any other period presented. We will record a non-cash reduction to revenue of $2.5 million for the three months ended June 30, 2011 relating to the issuance of an additional warrant.

Table of Contents

See *Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Metrics* for more information about annual dollar retention rates and bookings, and *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Offsets to Revenue* for additional information about common stock warrants that are accounted for as reductions of revenue.

The Market

Based on the U.S. Bureau of Labor Statistics data as of December 2010, total compensation paid to the United States civilian workforce of approximately 154 million people exceeded $9.1 trillion in 2010. Given the significance of these costs, organizations have sought to maximize the return on their investments in human capital. We believe the major challenges that organizations face in empowering their people and maximizing the productivity of their internal and external human capital are developing talent, engaging employees, improving business execution, building a leadership pipeline and integrating with their extended enterprise of customers, vendors and distributors.

To deal with these challenges, organizations have deployed a variety of solutions, including written tracking systems and software-based solutions. International Data Corporation, or IDC, estimates that total spending on software for workforce, e-learning, e-recruiting, intelligent compensation and performance management was $3.6 billion in 2009.[1] Historically, many of these software solutions have been human resource applications running on hardware located on organizations premises. However, we believe that just as organizations have increasingly chosen software-as-a-service, or SaaS, solutions for business applications such as sales force management, they will also increasingly adopt SaaS learning and talent management solutions. According to IDC, the overall SaaS market totaled $13.1 billion in revenue in 2009, representing 5.7% of worldwide software spending across all primary markets, and is expected to grow to $32.4 billion by 2013, representing 13.4% of worldwide software spending across all primary markets.[2]

Many existing learning and talent management solutions suffer from shortcomings such as narrow functionality, limited configurability, difficulty of use, inability to scale and high costs of deployment, maintenance and upgrades. As a result, we believe a market opportunity exists for a comprehensive, integrated solution that helps organizations manage all aspects of their internal and external human capital and link talent management to their business strategy.

The Cornerstone OnDemand Answer

We deliver a comprehensive SaaS solution that consists of five integrated platforms for learning management, enterprise social networking, performance management, succession planning and extended enterprise. We offer a number of cross-platform tools for talent management analytics and reporting, employee profile management, employee on-boarding and e-learning content aggregation and delivery. We also provide consulting services for configuration, integration and training for our solution. We believe that our solution delivers the following benefits:

Comprehensive Functionality. We offer five integrated platforms that address all stages of the employee lifecycle and can be used to manage processes that span multiple learning and talent management functions.

1 IDC, Worldwide HCM Applications 2008 Vendor Shares: Analysis of 25 Vendors in Core HR, eLearning, eRecruiting, Intelligent Compensation, Performance Management, and Workforce Management, Doc.#221284, Dec 2009.

2 IDC, Worldwide Software as a Service 2010-2014 Forecast: Software Will Never Be the Same, Doc.#223628, Jun 2010.

Flexible and Highly Configurable. Clients can match the use of our solution with their specific business processes and workflows. The flexibility of our solution also allows our clients to deploy the five platforms of our solution individually or in any combination.

Easy-to-Use, Personalized User Interface. Our solution employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution.

Software-as-a-Service Model Lowers the Total Cost of Ownership and Speeds Delivery. Our solution is accessible through a standard web browser and does not require the large investments by clients in implementation time, personnel, hardware and consulting services that are typical of legacy on-premises software solutions.

Scalable to Meet the Needs of All Organizations. We have built a highly scalable, multi-tenant, multi-user architecture that supports the complex needs of global corporations yet is capable of supporting deployments of any size.

Continued Innovation through Collaborative Product Development. The vast majority of the thousands of features in our solution were designed with existing and prospective clients based on their specific functional requests.

Our Strategy

Our goal is to empower people, organizations and communities with our comprehensive learning and talent management solution. Key elements of our strategy include:

Retain and Expand Business with Existing Clients. We strive to maintain our strong rate of retention by continuing to provide our clients with high levels of service and support. We also intend to continue to sell additional platforms and services to our existing clients.

Strengthen Current Sales Channels. We plan to invest aggressively in our direct sales teams targeting enterprise and mid-market clients in North America and to grow our Europe, Middle-East and Africa, or EMEA, operations. We also intend to grow our distribution channels through key alliances, including continued expansion of our relationships with regional distributors.

Target New Markets. We recently began selling to the public sector and intend to expand our public sector sales operations. We also intend to expand our sales presence and tailor our solution for small organizations. In addition, we intend to build sales and services operations in Asia Pacific that are modeled after our EMEA operations.

Continue to Innovate and Extend Our Technological Leadership. We plan to continue to use our expertise in learning and talent management in collaboration with our clients to develop new applications, features and functionality to enhance our solution and expand our addressable market.

Make Cornerstone Built to Last. Our growth strategy since inception has been deliberate, disciplined and focused on long-term success. This has allowed us to weather periods of economic turmoil and significant changes in the markets we serve without undergoing layoffs or business contraction. We plan to continue to take the same systematic approach to growth in the future. We are also committed to empowering our employees and the communities around us, in part demonstrated by our creation of the Cornerstone OnDemand Foundation.

3

Table of Contents

Summary Risk Factors

There are a number of risks and uncertainties that may affect our business, financial and operating performance and growth prospects. You should carefully consider all of the risks discussed in *Risk Factors*, which begin on page 9, the other information contained in this prospectus and our consolidated financial statements and the related notes before investing in our common stock. These risks include, among others:

- we have a history of losses, and we cannot be certain that we will achieve or sustain profitability;
- unfavorable conditions in our industry or the global economy, or reductions in information technology spending, could limit our ability to grow and negatively affect our operating results;
- our financial results may fluctuate due to our long, variable and therefore unpredictable sales cycle and our focus on large and mid-market organizations;
- our financial results may fluctuate due to other factors, including invoicing terms, some of which may be beyond our control;
- the forecasts of market growth included in this prospectus may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, our business may not grow at similar rates or at all;
- our business depends substantially on clients renewing their subscriptions to our solution, purchasing additional platforms from us and adding additional users;
- our market is intensely competitive, and if we do not compete effectively, our operating results could suffer;
- our business and operations are experiencing rapid growth and organizational change, which we must manage effectively to preserve the key aspects of our corporate culture and avoid negative effects on our business and operating results; and
- we may acquire other companies or technologies, which could divert our management s attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results.

Corporate Information

We were incorporated in Delaware in 1999 under the name CyberU, Inc. and changed our name to Cornerstone OnDemand, Inc. in 2005. Our principal executive offices are located at 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, CA 90404, and our telephone number is (310) 752-0200. Our website address is *www.csod.com*. Information contained on our website, however, is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

Cornerstone, Cornerstone OnDemand, the Cornerstone OnDemand logo, CyberU and other trademarks or service marks of Cornerstone OnDemand appearing in this prospectus are the property of Cornerstone OnDemand. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.

Industry and Market Data

Some of the industry and market data contained in this prospectus are based on independent industry publications or other publicly available information, while other information is based on our internal sources. Although we believe that each source is reliable as of its respective date, the information contained in such sources involves a number of assumptions and limitations and has not been independently verified. As a result, you should be aware that the industry and market industry data contained in this prospectus, and beliefs and estimates based on such data, may not be reliable.

Table of Contents

THE OFFERING

Common stock offered:	
by us:	shares.
by the selling stockholders	shares.
Common stock to be outstanding after the offering	shares (or shares if the underwriters exercise their option to purchase additional shares in full).
Use of proceeds	We estimate that we will receive net proceeds of approximately from this offering, based on an assumed public offering price of $ per share (the closing price of our common stock as reported on the NASDAQ Global Market on , 2011), after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use the net proceeds from this offering for general corporate purposes, including the payment of expenses associated with this offering. See *Use of Proceeds* for additional information. We will not receive any proceeds from the sale of shares offered by the selling stockholders, who include certain of our executive officers and directors and entities affiliated with our board of directors.
Risk factors	See *Risk Factors* beginning on page 9 and the other information included elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Global Market symbol	CSOD

The number of shares of our common stock outstanding after this offering is based on shares outstanding as of June 30, 2011, and excludes:

- shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2011 at a weighted-average exercise price of $ per share, which will remain outstanding after this offering unless earlier exercised;
- shares of common stock issuable upon the exercise of options at a weighted-average exercise price of $ per share and 304,500 shares of common stock issuable under restricted stock units, each outstanding as of June 30, 2011;
- 225,750 shares of common stock issuable upon the exercise of options granted on July 1, 2011 at an exercise price of $17.92 per share; and
- an aggregate of approximately 3,561,281 shares of common stock reserved for future issuance under our equity incentive plans as of June 30, 2011.

Table of Contents

Additional shares will become available for issuance under our equity incentive plans following the offering as a result of (i) cancellation of options or repurchases of shares outstanding under our 1999 Equity Incentive Plan and 2009 Equity Incentive Plan and (ii) automatic annual increases in the number of shares reserved under our equity incentive plans. For more information, see *Executive Compensation Employee Benefit and Stock Plans*.

Except as otherwise indicated, the information in this prospectus reflects or assumes the following:

- the issuance of shares of common stock to be sold in the offering upon the exercise of vested options and warrants outstanding as of June 30, 2011, for which we have received irrevocable elections to exercise immediately prior to, and contingent upon, the completion of the offering, at a weighted-average exercise price of $ per share;

- no exercises of options or warrants, except for the options and warrants described above, and no vesting of restricted stock units, in each case subsequent to June 30, 2011; and

- no exercise of the underwriters option to purchase additional shares of our common stock.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present our consolidated financial and other data for our business for the periods indicated. We derived the summary consolidated financial data for the years ended December 31, 2008, 2009 and 2010 from our audited financial statements included elsewhere in this prospectus. Summary consolidated financial data for the three months ended March 31, 2010 and 2011 and as of March 31, 2011 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future. You should read this summary consolidated financial data in conjunction with *Management s Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements and related notes, in each case included elsewhere in this prospectus.

	Years Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Gross revenue(1)	$ 19,626	$ 29,322	$ 46,608	$ 9,670	$ 15,747
Common stock warrant charge(1)			(2,877)		
Net revenue	19,626	29,322	43,731	9,670	15,747
Cost of revenue(2)	6,116	8,676	14,280	3,064	4,579
Gross profit	13,510	20,646	29,451	6,606	11,168
Operating expenses:					
Sales and marketing(2)	16,914	18,886	28,134	6,366	9,845
Research and development(2)	2,724	2,791	5,602	1,004	2,322
General and administrative(2)	2,564	4,329	8,555	1,416	3,553
Total operating expenses	22,202	26,006	42,291	8,786	15,720
Loss from operations(1)	(8,692)	(5,360)	(12,840)	(2,180)	(4,552)
Other income (expense):					
Interest income (expense) and other income (expense), net	(639)	(813)	(1,320)	(335)	(448)
Change in fair value of preferred stock warrant liabilities(3)	(790)	(2,147)	(34,073)	(1,272)	(42,559)
Loss before provision for income taxes	(10,121)	(8,320)	(48,233)	(3,787)	(47,559)
Provision for income taxes	(62)	(72)	(137)	(30)	(34)
Net loss	(10,183)	(8,392)	(48,370)	(3,817)	(47,593)
Accretion of redeemable preferred stock	(337)	(2,072)	(8,235)	(764)	(5,208)
Net loss attributable to common stockholders	$ (10,520)	$ (10,464)	$ (56,605)	$ (4,581)	$ (52,801)
Net loss per share attributable to common stockholders, basic and diluted(4)	$ (1.25)	$ (1.24)	$ (6.15)	$ (0.54)	$ (3.65)
Weighted average common shares outstanding, basic and diluted	8,387	8,467	9,206	8,526	14,453

(1) During the fourth quarter of 2010, we recorded a $2.9 million reduction of revenue associated with a common stock warrant. There have been no reductions of revenue in any other period presented. We have presented gross revenue excluding this non-cash common stock warrant charge because this charge does not relate to sales activity in the period, and we do not consider the issuance of warrants to be indicative of our core operating performance. See *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Offsets to Revenue* for additional information about common stock warrants that are accounted for as reductions of revenue.

7

Table of Contents

(2) The table on the previous page includes stock-based compensation included in the following line items:

	Year ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands)				
Stock-based compensation:					
Cost of revenue	$ 30	$ 27	$ 69	$ 13	$ 46
Sales and marketing	143	221	345	60	212
Research and development	24	22	132	15	114
General and administrative	45	61	361	7	433
Total	$ 242	$ 331	$ 907	$ 95	$ 805

(3) During March 2011, all of our warrants to purchase preferred stock were exercised, and all outstanding shares of preferred stock were converted into shares of common stock on a one-for-one basis. At that time, the preferred stock warrant liabilities were reclassified to additional paid-in capital, and as a result, we no longer record any change in the fair value of these liabilities in our statements of operations.

(4) See Notes 2 and 3 to our consolidated financial statements for a description of the method to compute basic and diluted net loss per share attributable to common stockholders.

	As of March 31, 2011	
	Actual	Pro Forma(1)
	(in thousands)	
Consolidated balance sheet data:		
Cash and cash equivalents	$ 91,045	$
Property and equipment, net	3,831	
Working capital, excluding deferred revenue	97,922	
Total assets	119,667	
Deferred revenue, current and non-current portions	32,403	
Capital lease obligations, net of current portion	1,580	
Stockholders equity	70,694	

(1) The pro forma consolidated balance sheet data gives effect to (i) the issuance of shares of common stock to be sold in this offering upon the exercise of vested options and warrants immediately prior to the completion of this offering, with aggregate proceeds to us from such exercise of $ million, and (ii) the sale of shares of common stock in this offering at an assumed public offering price of $ per share (the closing price of our common stock as reported on the NASDAQ Global Market on , 2011), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus, including our consolidated financial statements and the related notes, before making a decision to invest in our common stock. If any of such risks actually occur, our business, operating results, financial condition or growth prospects could be materially adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We have a history of losses, and we cannot be certain that we will achieve or sustain profitability.

We have incurred losses since our inception. We experienced net losses of $10.2 million, $8.4 million, $48.4 million and $47.6 million in 2008, 2009 and 2010 and for the three months ended March 31, 2011, respectively. At March 31, 2011, our accumulated deficit was $148.3 million, and total stockholders equity was $70.7 million. We expect to continue to incur operating losses as a result of expenses associated with the continued development and expansion of our business. Our expenses include sales and marketing, research and development and other costs relating to the development, marketing and sale of our solution and consulting services that may not generate revenue until later periods, if at all. Any failure to increase revenue or manage our cost structure as we implement initiatives to grow our business could prevent us from achieving or sustaining profitability. In addition, our ability to achieve profitability is subject to a number of the risks and uncertainties discussed below, many of which are beyond our control. We cannot be certain that we will be able to achieve or sustain profitability on a quarterly or annual basis.

Unfavorable conditions in our industry or the global economy or reductions in information technology spending could limit our ability to grow our business and negatively affect our operating results.

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our clients. The revenue growth and potential profitability of our business depends on demand for enterprise application software and services generally and for learning and talent management solutions in particular. We sell our solution primarily to large and mid-sized organizations whose businesses fluctuate based on general economic and business conditions. In addition, a portion of our revenue is attributable to the number of users of our solution at each of our clients, which in turn is influenced by the employment and hiring patterns of our clients and potential clients. To the extent that weak economic conditions cause our clients and potential clients to freeze or reduce their headcount, demand for our solution may be negatively affected. Historically, economic downturns have resulted in overall reductions in spending on information technology and learning and talent management solutions as well as pressure for extended billing terms, as occurred during the recent recession. If economic conditions deteriorate or do not materially improve, our clients and potential clients may elect to decrease their information technology and learning and talent management budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

Our financial results may fluctuate due to our long, variable and, therefore, unpredictable sales cycle and our focus on large and mid-market organizations.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. If our sales cycle becomes longer or more variable, our results may be adversely affected. Our

Table of Contents

sales cycle generally varies in duration between two to nine months and, in some cases, even longer depending on the size of the potential client. Factors that may influence the length and variability of our sales cycle include:

- the need to educate potential clients about the uses and benefits of our solution;
- the relatively long duration of the commitment clients make in their agreements with us;
- the discretionary nature of potential clients purchasing and budget cycles and decisions;
- the competitive nature of potential clients evaluation and purchasing processes;
- evolving functionality demands of potential clients;
- fluctuations in the learning and talent management needs of potential clients;
- announcements or planned introductions of new products by us or our competitors; and
- lengthy purchasing approval processes of potential clients.

The fluctuations that result from the length and variability of our sales cycle may be magnified by our focus on sales to large and mid-sized organizations. If we are unable to close an expected significant transaction with one or more of these companies in a particular period, or if an expected transaction is delayed until a subsequent period, our operating results for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be adversely affected.

Our financial results may fluctuate due to other factors, including invoicing terms, some of which may be beyond our control.

There are a number of other factors that may cause our financial results to fluctuate from period to period, including:

- the extent to which new clients are attracted to our solution to satisfy their learning and talent management needs;
- the timing and rate at which we sign agreements with new clients;
- the extent to which we retain existing clients and satisfy their requirements;
- the extent to which existing clients renew their subscriptions to our solution and the timing of those renewals;
- the extent to which existing clients purchase or discontinue use of additional platforms in our solution and add or decrease the number of users;

the addition or loss of large clients, including through acquisitions or consolidations;

the number and size of new clients, as compared to the number and size of renewal clients in a particular period;

the mix of clients between small, mid-sized and large organizations;

changes in our pricing policies or those of our competitors;

changes in billing cycles and the size of advance payments relative to overall contract value in client agreements;

seasonal factors affecting demand for our solution or potential clients purchasing decisions;

the financial condition and creditworthiness of our clients;

the amount and timing of operating expenses, including those related to the maintenance and expansion of our business, operations and infrastructure;

- the timing and success of new product and service introductions by us;
- the timing and success of current and new competitive products and services by our competitors;
- other changes in the competitive dynamics of our industry, including consolidation among competitors, clients or strategic partners;
- the timing of expenses related to the development of new products and technologies, including enhancements to our solution;
- our ability to manage our existing business and future growth, including in terms of additional clients, incremental users and new geographic regions;
- expenses related to our data centers and the expansion of such data centers;
- the effects and expenses of acquisition of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions;
- general economic, industry and market conditions; and
- various factors related to disruptions in our SaaS hosting network infrastructure, defects in our solution, privacy and data security, and exchange rate fluctuations, each of which is described elsewhere in these risk factors.

In light of the foregoing factors, we believe that our financial results, including our revenue and deferred revenue levels, may vary significantly from period-to-period. As a result, period-to-period comparisons of our operating results may not be meaningful and should not be relied on as an indication of future performance.

The forecasts of market growth included in this prospectus may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, we cannot assure you our business will grow at similar rates, or at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates which may not prove to be accurate. Forecasts relating to the expected growth in the SaaS market or learning and talent management market may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our businesses at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, the forecasts included in this prospectus should not be taken as indicative of our future growth.

Our business depends substantially on clients renewing their agreements and purchasing additional platforms from us or adding additional users. Any decline in our client renewals, purchases of additional platforms or additional users would harm our future operating results.

In order for us to improve our operating results, it is important that our clients renew their agreements with us when the initial contract term expires and also purchase additional platforms or add additional users. Our clients have no obligation to renew their subscriptions after the initial subscription period, and we cannot assure you that clients will renew subscriptions at the same or higher level of service, if at all. In the past, some of our clients have elected not to renew their agreements with us. Moreover, certain of our clients have the right to cancel their agreements for convenience, subject to certain notice requirements and, in some cases, early termination fees. Our clients renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our solution, pricing, the prices of competing products or services, mergers and acquisitions affecting our client base, reduced hiring by our clients or reductions in our clients spending levels. If our clients do not renew their subscriptions, renew on less favorable terms, fail to purchase additional platforms, or fail to add new users, our revenue may decline, and our operating results may be harmed.

Table of Contents

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for learning and talent management software is highly competitive, rapidly evolving and fragmented. Many of our competitors and potential competitors are larger and have greater brand name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do, and, with the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. Similarly, some competitors offer different billing terms, which has resulted in pressures on our billing terms. If we are unable to maintain our pricing levels and our billing terms, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our solution to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from paper-based processes and desktop software tools. We also face competition from custom-built software that is designed to support the needs of a single organization, as well as from third-party human resource application providers. These software vendors include, without limitation, Halogen Software, Inc., Jive Software, Inc., Oracle Corporation, Plateau Systems, Ltd, Saba Software, Inc., SAP AG, Softscape, Inc., StepStone ASA, a subsidiary of Axel Springer AG, SuccessFactors, Inc., SumTotal Systems, Inc., and Taleo Corporation.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. In addition, many of our competitors have established marketing relationships, access to larger client bases and major distribution agreements with consultants, system integrators and distributors. Moreover, many software vendors could bundle human resource products or offer such products at a lower price as part of a larger product sale. In addition, some competitors may offer software that addresses one, or a limited number, of learning or talent management functions at a lower price point or with greater depth than our solution. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. Further, some potential clients, particularly large enterprises, may elect to develop their own internal solutions. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Our business and operations are experiencing rapid growth and organizational change. If we fail to effectively manage such growth and change in a manner that preserves the key aspects of our corporate culture, our business and operating results could be harmed.

We have experienced, and may continue to experience, rapid growth and organizational change, which has placed, and may continue to place, significant demands on our management, operational and financial resources. For example, our headcount has grown from approximately 210 employees on December 31, 2009 to approximately 410 employees on June 30, 2011. In addition, we have established offices in the United Kingdom, France, Germany, Israel, Spain, and India, and we may continue to expand our international operations into other countries in the future. We have also experienced significant growth in the number of users, transactions and data that our SaaS hosting infrastructure supports. Finally, our organizational structure is becoming more complex as we improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to client success that has been central to our growth so far. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our solution may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract clients.

Table of Contents

For a detailed discussion of the risks related to our ability to expand our business internationally, manage growth in our SaaS hosting network infrastructure, and expand parts of our organization to implement improved operational, financial and management controls and reporting systems, see the following risk factors *We currently have only a limited number of international offices and may expand our international operations, but we do not have substantial experience in international markets and may not achieve the results that we expect* and *As a newly public company, we are obligated to develop and maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, or if our auditors are otherwise unable to attest to their effectiveness when required, investor confidence in our company, and our common stock price, may be adversely affected.*

As a newly public company, we are obligated to develop and maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, our financial reporting may not be accurate, complete and timely, and our auditors may be unable to attest to its effectiveness when required, thus adversely affecting investor confidence in our company.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the year ending December 31, 2012 and in each year thereafter. Our auditors may also need to attest to the effectiveness of our internal control over financial reporting. These assessments will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

Two significant deficiencies in internal control were identified in connection with the preparation of our financial statements and the audit of our financial results for 2009. We determined that we had a significant deficiency relating to the proper accrual of certain bonuses for non-executive employees in prior years. In addition, we determined that we had a significant deficiency relating to errors discovered by us and our independent registered public accountants in our manual input of amounts necessary for the calculation of revenue under new guidance for reporting revenue from multiple-deliverables arrangements. None of these errors resulted in a revenue adjustment that we determined to be material, either individually or in the aggregate, to our financial statements.

During 2010, we took actions to remediate both of these significant deficiencies including instituting more detailed recording, review and approval processes, establishing additional internal control, providing additional training and fully implementing our new financial accounting system. At December 31, 2010, we determined that the two significant deficiencies identified in 2009 had been remediated, and we did not identify any additional significant deficiencies or material weaknesses. Additionally, during the three months ended March 31, 2011, we did not identify any significant deficiencies or material weaknesses.

We are in the early stages of the costly and challenging process of compiling our system of internal control over financial reporting and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may discover, and not be able to remediate, future significant deficiencies or material weaknesses, nor be able to complete our evaluation, testing and any required remediation in a timely fashion. Failure of our internal control over financial reporting to be effective could cause our financial reporting to be inaccurate, incomplete or delayed. Moreover, even if no inaccuracy, incompletion or delay of reporting results, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert, and our auditors will be unable to affirm, that our internal control is effective, in which case investors may lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock.

Table of Contents

Security and privacy breaches may hurt our business.

Our solution involves the storage and transmission of clients proprietary and confidential information over the Internet, and security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of this information, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to client data, our reputation will be damaged, our business may suffer and we could incur significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose sales and clients. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our results of operations and financial condition. Moreover, if a high profile security breach occurs with respect to another SaaS provider, our clients and potential clients may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing clients or attract new ones.

Any significant disruption in our SaaS hosting network infrastructure could harm our reputation, require us to provide credits or refunds, result in early termination of a client agreement or a loss of clients, and adversely affect our business.

Our SaaS hosting network infrastructure is a critical part of our business operations. Our clients access our solution through a standard web browser. Our clients depend on us for fast and reliable access to our solution. Our software is proprietary, and we rely on the expertise of members of our engineering and software development teams for the continued performance of our solution. We have experienced, and may in the future experience, disruptions in our computing and communications infrastructure. Factors that may cause such disruptions include:

- human error;
- security breaches;
- telecommunications outages from third-party providers;
- computer viruses;
- acts of terrorism, sabotage or other intentional acts of vandalism;
- unforeseen interruption or damages experienced in moving hardware to a new location;
- fire, earthquake, flood and other natural disasters; and
- power loss.

Although we generally back up our client databases hourly and store our data in more than one geographically distinct location at least weekly, our infrastructure does not currently include the real-time mirroring of data. Thus, in the event of any of the factors described above, or certain other failures of our computing infrastructure, client data from recent transactions may be permanently lost. Moreover, some of our agreements include performance guarantees and service level standards that obligate us to provide credits, or refunds or termination rights in the event of a significant disruption in our SaaS hosting network infrastructure or other technical problems that relate to the functionality or design of our solution.

Table of Contents

Defects in our solution could affect our reputation, result in significant costs to us and impair our ability to sell our solution and related services.

Defects in our solution could adversely affect our reputation, result in significant costs to us and impair our ability to sell our solution in the future. The costs incurred in correcting any solution defects may be substantial and could adversely affect our operating results. Although we continually test our solution for defects and work with clients through our client support organization to identify and correct errors, defects in our solution are likely to occur in the future. Any defects that cause interruptions to the availability of our solution could result in:

- lost or delayed market acceptance and sales of our solution;
- early termination of client agreements or loss of clients;
- credits or refunds to clients;
- product liability suits against us;
- diversion of development resources;
- injury to our reputation; and
- increased maintenance and warranty costs.

While our client agreements typically contain limitations and disclaimers that purport to limit our liability for damages related to defects in our solution, such limitations and disclaimers may not be enforced by a court or other tribunal or otherwise effectively protect us from such claims.

We may acquire other companies or technologies, which could divert our management s attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results.

In the future, we may seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our solution, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are ultimately consummated.

We do not have any experience in acquiring other businesses. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition. We may also not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;

- diversion of management s attention from other business concerns;
- harm to our existing relationships with distributors and clients as a result of the acquisition;
- the potential loss of key employees;
- the use of resources that are needed in other parts of our business; and
- the use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could harm our results of operations.

Table of Contents

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.

Our growth depends in part on the success of our strategic relationships with third parties.

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. In addition to growing our indirect sales channels, we intend to pursue additional relationships with other third parties, such as technology and content providers and implementation consultants. Identifying, negotiating and documenting relationships with third parties require significant time and resources as does integrating third-party content and technology. Our agreements with distributors and providers of technology, content and consulting services are typically non-exclusive, do not prohibit them from working with our competitors or from offering competing services and generally do not have minimum purchase commitments. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our solution. In addition, these distributors and providers may not perform as expected under our agreements, and we have had, and may in the future have, disagreements or disputes with such distributors and providers, which could negatively affect our brand and reputation. A global economic slowdown could also adversely affect the businesses of our distributors, and it is possible that they may not be able to devote the resources we expect to the relationship.

If we are unsuccessful in establishing or maintaining our relationships with these third parties, including our relationship with ADP, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results would suffer. Even if we are successful, we cannot assure you that these relationships will result in improved operating results.

Failure to effectively expand our direct sales teams and develop and expand our indirect sales channel will impede our growth.

We will need to continue to expand our sales and marketing infrastructure in order to grow our client base and our business. We plan to significantly expand our direct sales teams and engage additional third-party distributors, both domestically and internationally. Identifying, recruiting and training these people and entities will require significant time, expense and attention. Our business will be seriously harmed and our financial resources will be wasted if our efforts to expand our direct and indirect sales channels do not generate a corresponding increase in revenue. In particular, if we are unable to hire, develop and retain talented sales personnel or if our new direct sales personnel are unable to achieve expected productivity levels in a reasonable period of time, we may not be able to significantly increase our revenue and grow our business.

If we fail to retain key employees and recruit qualified technical and sales personnel, our business could be harmed.

We believe that our success depends on the continued employment of our senior management and other key employees, such as our chief executive officer. In addition, because our future success is dependent on our ability to continue to enhance and introduce new software and services, we are heavily dependent on our ability to attract and retain qualified engineers with the requisite education, background and industry experience. As we expand our business, our continued success will also depend, in part, on our ability to attract and retain qualified sales, marketing and operational personnel capable of supporting a larger and more diverse client base. The loss of the services of a significant number of our engineers or sales people could be disruptive to our development efforts or business relationships. In addition, if any of our key employees joins a competitor or decides to otherwise compete with us, we may experience a material disruption of our operations and development plans, which may cause us to lose clients or increase operating expenses as the attention of our remaining senior managers is diverted to recruit replacements for the departed key employees.

In cases where we are asked by clients to deploy our solution on their behalf, failure to effectively manage such client deployments by us or our third-party service providers could adversely impact our business.

Clients have the option of implementing our solution themselves or relying on us to do so on their behalf. In cases where we are asked to deploy our solution for a client, we need to have a substantial understanding of such client s business so that we can configure our solution in a manner that complements its existing business processes and integrates our solution into its existing systems. It may be difficult for us to manage the timeliness of these deployments and the allocation of personnel and resources by us or our clients. In certain situations, we also work with third-party service providers in the deployment of our solution, and we may experience difficulties managing such third parties. Failure to successfully manage client deployments by us or our third-party service providers could harm our reputation and cause us to lose existing clients, face potential client disputes or limit the rate at which new clients purchase our solution.

Because we recognize revenue from client subscriptions over the term of the agreement, a significant downturn in our business may not be immediately reflected in our operating results.

We recognize revenue from subscription agreements monthly over the terms of these agreements, which is typically three years. As a result, a significant portion of the revenue we report in each quarter is generated from client agreements entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any one quarter may not impact our financial performance in that quarter, but will negatively affect our revenue in future quarters. If a number of contracts expire and are not renewed in the same quarter, our revenue will decline significantly in that quarter and subsequent quarters. In addition, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in sales and market acceptance of our solution may not be reflected in our short-term results of operations.

Certain of our operating results and financial metrics are difficult to predict as a result of seasonality.

We have historically experienced seasonality in terms of when we enter into client agreements for our solution. We sign a significantly higher percentage of agreements with new clients, and renewal agreements with existing clients, in the fourth quarter of each year and a significant portion of these agreements are signed during the last month, and with respect to each quarter, often the last two weeks, of the quarter. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the client agreement, which is generally three years. We expect this seasonality to continue, or possibly increase, in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus difficulties in predictability.

If we fail to manage our SaaS hosting network infrastructure capacity, our existing clients may experience service outages and our new clients may experience delays in the deployment of our learning and talent management solution.

We have experienced significant growth in the number of users, transactions and data that our hosting infrastructure supports. We seek to maintain sufficient excess capacity in our SaaS hosting network infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity

Table of Contents

to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure capacity requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses. If our hosting infrastructure capacity fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could harm our reputation and adversely affect our revenue growth.

Because we generally recognize subscription revenue from our clients over the terms of their agreements but incur most costs associated with generating such agreements upfront, rapid growth in our client base may put downward pressure on our operating income in the short term.

The expenses associated with generating client agreements are generally incurred up front but the resulting subscription revenue is generally recognized over the life of the agreements; therefore, increased growth in the number of our clients will result in our recognition of more costs than revenue during the early periods covered by such agreements, even in cases where the agreements are expected to be profitable for us over their full terms.

Integrated, comprehensive SaaS solutions such as ours represent a relatively recent approach to addressing organizations learning and talent management challenges, and we may be forced to change the prices we charge for our solution, or the pricing model upon which they are based, as the market for this type of solution evolves.

Providing organizations with applications to address their learning and talent management challenges through integrated, comprehensive SaaS solutions is a developing market. The market for these solutions is therefore still evolving, and competitive dynamics may cause pricing levels, as well as pricing models generally, to change, as the market matures and as existing and new market participants introduce new types of solutions and different approaches to enable organizations to address their learning and talent management needs. As a result, we may be forced to reduce the prices we charge for our solution or the pricing model on which they are based, and may be unable to renew existing client agreements or enter into new client agreements at the same prices and upon the same terms that we have historically, which could have a material adverse effect on our revenue, gross margin and other operating results.

Existing or future laws and regulations relating to privacy or data security could increase the cost of our solution and subject us or our clients to litigation, regulatory investigations and other potential liabilities.

Our learning and talent management solution enables our clients to collect, manage and store a wide range of data related to every phase of the employee performance and management cycle. The United States and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information. Several foreign jurisdictions, including the European Union and the United Kingdom, have adopted legislation (including directives or regulations) that increase or change the requirements governing data collection and storage in these jurisdictions. If our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to litigation, regulatory investigations or other liabilities. Moreover, if future laws and regulations limit our clients ability to use and share employee data or our ability to store, process and share data with our clients over the Internet, demand for our solution could decrease, our costs could increase, and our results of operations and financial condition could be harmed.

Table of Contents

Evolving regulation of the Internet or changes in the infrastructure underlying the Internet may adversely affect our financial condition by increasing our expenditures and causing client dissatisfaction.

As Internet commerce continues to evolve, regulation by federal, state or foreign agencies may increase. We are particularly sensitive to these risks because the Internet is a critical component of our business model. In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Legislation has been proposed that may impact the way that Internet service providers treat Internet traffic. The outcome of such proposals is uncertain but certain outcomes may negatively impact our business or increase our operating costs. Any regulation imposing greater fees for Internet use or restricting information exchanged over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

In addition, the rapid and continual growth of traffic on the Internet has resulted at times in slow connection and download speeds among Internet users. Our business expansion may be harmed if the Internet infrastructure cannot handle our clients demands or if hosting capacity becomes insufficient. If our clients become frustrated with the speed at which they can utilize our solution over the Internet, our clients may discontinue the use of our learning and talent management solution and choose not to renew their contracts with us.

We currently have only a limited number of international offices and may expand our international operations, but we do not have substantial experience in international markets and may not achieve the results that we expect.

We currently have international offices in the United Kingdom, France, Germany, Israel, Spain and India, and we may expand our international operations into other countries in the future. International operations involve a variety of risks, including:

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations;
- regulations relating to data security and the unauthorized use of, or access to, commercial and personal information;
- greater difficulty in supporting and localizing our products;
- changes in a specific country s or region s political or economic conditions;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- limited or unfavorable intellectual property protection; and
- restrictions on repatriation of earnings.

We have limited experience in marketing, selling and supporting our products and services abroad. Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.

19

Table of Contents

Even if demand for learning and talent management products and services increases generally, there is no guarantee that demand for SaaS solutions like ours will increase to a corresponding degree.

The widespread adoption of our solution depends not only on strong demand for learning and talent management products and services generally, but also for products and services delivered via a SaaS business model in particular. There are still a significant number of organizations that have adopted no talent management functions at all, and it is unclear whether such organizations ever will adopt such functions and, if they do, whether they will desire a SaaS learning and talent management solution like ours. As a result, we cannot assure you that our SaaS learning and talent management solution will achieve and sustain the high level of market acceptance that is critical for the success of our business.

Mergers of or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.

If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic distributors, systems integrators, payroll services companies, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our solution and limiting the number of consultants available to implement our solution. Disruptions in our business caused by these events could reduce our revenue.

If we fail to develop our brand cost-effectively, our business may suffer.

We believe that developing and maintaining awareness of the Cornerstone OnDemand brand in a cost-effective manner is critical to achieving widespread acceptance of our existing and future solutions and is an important element in attracting new clients. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful services at competitive prices. In the past, our efforts to build our brand have involved significant expenses. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brand. In addition, the Cornerstone OnDemand Foundation shares our company name and any negative perceptions of any kind about the Foundation could adversely affect our brand and reputation. If we fail to successfully promote and maintain our brand, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new clients or retain our existing clients to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

We face risks associated with our sales to governmental entities.

Sales to governmental entities currently account for a small portion of our revenue, but we may increase sales to such entities in the future. The risks associated with doing business with governmental entities include, but are not limited to, the following:

- Selling to governmental entities can be more competitive, expensive and time consuming than selling to private entities;

- Governmental entities may have significant leverage in negotiations, thereby enabling such entities to demand contract terms that differ from what we generally agree to in our standard agreements, including, for example, most favored nation clauses and terms allowing contract termination for convenience;

Table of Contents

- Government demand and payment for our solution may be influenced by public sector budgetary cycles and funding authorizations, with funding reductions or delays having an adverse impact on public sector demand for our solution; and

- Government contracts are generally subject to audits and investigations, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

While our experience dealing with governmental entities has so far been limited, to the extent that we become more reliant on contracts with government clients in the future, our exposure to such risks could increase, which, in turn, could adversely impact our business.

If for any reason we are not able to develop enhancements and new features, keep pace with technological developments or respond to future disruptive technologies, our business will be harmed.

Our future success will depend on our ability to adapt and innovate. To attract new clients and increase revenue from existing clients, we will need to enhance and improve our existing solution and introduce new features. The success of any enhancement or new feature depends on several factors, including timely completion, introduction and market acceptance. If we are unable to successfully develop or acquire new features or platforms or enhance our existing solution to meet client needs, our business and operating results will be adversely affected.

In addition, because our solution is designed to operate on a variety of network, hardware and software platforms using Internet tools and protocols, we will need to continuously modify and enhance our solution to keep pace with changes in internet-related hardware, software, communication, browser and database technologies. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments, our solution may become less marketable and less competitive or obsolete and our operating results may be negatively impacted.

Finally, our ability to grow is subject to the risk of future disruptive technologies. If new technologies emerge that are able to deliver learning and talent management solutions at lower prices, more efficiently or more conveniently, such technologies could adversely impact our ability to compete.

We might require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features and platforms or enhance our existing solution, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.

Table of Contents

If we fail to adequately protect our proprietary rights, our competitive advantage could be impaired and we may lose valuable assets, generate reduced revenue and incur costly litigation to protect our rights.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our licensed products may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information may increase.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solution.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could seriously harm our brand and adversely impact our business.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends in part upon our not infringing the intellectual property rights of others. However, our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry or, in some cases, our technology or products. From time to time, such third parties may claim that we are infringing their intellectual property rights, and we may actually be found to be infringing such rights. Any claims or litigation could cause us to incur significant expenses, and if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, indemnify our clients or distributors, obtain licenses, modify products, or refund fees, any of which would deplete our resources and adversely impact our business. We have obtained and may in the future obtain licenses from third parties to forestall or settle any potential claims of alleged infringement of our products and technology upon the intellectual property rights of others. In addition, discussions and negotiations with such third parties, whether successful or unsuccessful, could result in substantial costs and diversion of management resources, either of which could seriously harm our business.

Table of Contents

Our results of operations may be adversely affected if we are subject to a protracted infringement claim or a claim that results in a significant damage award.

We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors grows and the functionality of products in different industry segments overlaps. Our competitors or other third parties may challenge the validity or scope of our intellectual property rights. A claim may also be made relating to technology that we acquire or license from third parties. If we were subject to a claim of infringement, regardless of the merit of the claim or our defenses, the claim could:

- require costly litigation to resolve and the payment of substantial damages;
- require significant management time;
- cause us to enter into unfavorable royalty or license agreements;
- require us to discontinue the sale of our products;
- require us to indemnify our clients or third-party service providers; or
- require us to expend additional development resources to redesign our products.

We depend, in part, on technology of third parties licensed to us for our solution, and the loss or inability to maintain these licenses or errors in the software we license could result in increased costs, reduced service levels or delayed sales of our solution.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with clients and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our products, services, or other contractual obligations. The term of these indemnity provisions generally survives termination or expiration of the applicable agreement. Large indemnity payments could harm our business, operating results and financial condition. From time to time, we are requested by clients to indemnify them for breach of confidentiality with respect to personal data. Although we normally do not agree to, or contractually limit our liability with respect to, such requests the existence of such a dispute with a client may have adverse effects on our client relationships and reputation.

We use open source software in our products, which could subject us to litigation or other actions.

We use open source software in our products and may use more open source software in the future. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our products. In addition, if we were to combine our proprietary software products with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software products. If we inappropriately use open source software, we may be required to re-engineer our products, discontinue the sale of our products or take other remedial actions.

Table of Contents

We rely on third-party computer hardware and software that may be difficult to replace or which could cause errors or failures of our service.

We rely on computer hardware, purchased or leased, and software licensed from third parties in order to deliver our solution. This hardware and software may not continue to be available on commercially reasonable terms, if at all. Any loss of the right to use any of this hardware or software could result in delays in our ability to provide our solution until equivalent technology is either developed by us or, if available, identified, obtained and integrated. In addition, errors or defects in third-party hardware or software used in our solution could result in errors or a failure of our solution, which could harm our business. In addition, we recently completed the transition of our network infrastructure from a fully managed third-party hosting environment to self-managed, co-location facilities. If our co-location facilities do not scale and support our continued growth on a more cost-effective basis than a fully managed third-party environment, our business may be negatively impacted.

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in full compliance with applicable laws.

Our solution is subject to export controls, including the Commerce Department s Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department s Office of Foreign Assets Controls, and exports of our solution must be made in compliance with these laws. If we fail to comply with these U.S. export control laws and import laws, including U.S. Customs regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming and is not guaranteed, and may result in the delay or loss of sales opportunities. Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solution from being shipped or provided to U.S. sanctions targets, our solution and services could be shipped to those targets or provided by our distributors despite such precautions. Any such shipment could have negative consequences, including government investigations, penalties and reputational harm. In addition, various countries regulate the import of certain encryption technology, including through import permitting/licensing requirements, and have enacted laws that could limit our ability to distribute our solution or could limit our clients ability to implement our solution in those countries. Changes in our solution or changes in export and import regulations may create delays in the introduction and sale of our solution in international markets, prevent our clients with international operations from deploying our solution or, in some cases, prevent the export or import of our solution to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solution, or in our decreased ability to export or sell our solution to existing or potential clients with international operations. Any decreased use of our solution or limitation on our ability to export or sell our solution would likely adversely affect our business, financial condition and results of operations.

Table of Contents

Fluctuations in the exchange rate of foreign currencies could result in currency transactions losses.

We currently have foreign sales denominated in Great British Pounds, Euros, Australian Dollars, New Zealand Dollars, Singapore Dollars and Japanese Yen and may in the future have sales denominated in the currencies of additional countries. In addition, we incur a portion of our operating expenses in Great British Pounds and Euros and, to a much lesser extent, in Canadian Dollars, Indian Rupees and Israeli New Shekels. Any fluctuation in the exchange rate of these foreign currencies may negatively impact our business, financial condition and operating results. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets.

We are exposed to fluctuations in the market values of our investments and in interest rates, either of which could impair the market value of our investments and harm our financial results.

At March 31, 2011, we had $91.0 million in cash and cash equivalents, which primarily consisted of money market funds backed by United States Treasury Bills and certificates of deposit. In April and May 2011, we invested $42.5 million in United States Treasury Bills with maturities ranging from one to seven months. In the future, we expect to continue to invest in similar instruments with maturities of up to one year. These investments are subject to general credit, liquidity, market and interest rate risks, which have been exacerbated by unusual events such as the financial and credit crisis, and bankruptcy filings in the United States, which in turn have affected various sectors of the financial markets and led to global credit and liquidity issues. These securities are classified as available-for-sale and, consequently, are recorded on our consolidated balance sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income (loss), net of tax.

Our investments are fixed-rate debt securities and carry a degree of interest rate risk. Because the market value of fixed-rate debt securities may be adversely impacted by a rise in interest rates, our future investment income may fall short of expectations if interest rates rise. In addition, we may suffer losses if we are forced to sell securities that have experienced a decline in market value because of changes in interest rates. Currently, we do not use financial derivatives to hedge our interest rate exposure.

The fair value of our investments may change significantly due to events and conditions in the credit and capital markets. Any investment securities that we hold, or the issuers of such securities, could be subject to review for possible downgrade. Any downgrade in these credit ratings may result in an additional decline in the estimated fair value of our investments. Changes in the various assumptions used to value these securities and any increase in the perceived market risk associated with such investments may also result in a decline in estimated fair value.

In the event of adverse conditions in the credit and capital markets, our investment portfolio may be impacted, and we could determine that some or all of our investments have experienced an other-than-temporary decline in fair value, requiring impairment, which could adversely impact our financial position and operating results.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example,

Table of Contents

we retrospectively adopted the amended guidance for revenue recognition for arrangements with multiple deliverables on January 1, 2009, which had a material impact on our financial position and results of operations.

The subleases for our corporate headquarters are subject, and subordinate, to a master lease, and any early termination of the master lease could materially and adversely affect our business.

We occupy our Santa Monica headquarters pursuant to two subleases from the primary tenant of the facility. The subleases are subject, and subordinate, to the terms and conditions of the tenant s master lease with the building owner. Either or both subleases could be terminated early if the master lease is terminated for any reason, including, but not limited to, the tenant s default or in the event the tenant exercises its right to terminate the master lease due to casualty or condemnation. Such a termination of our subleases could significantly disrupt our operations, including if we have to relocate our headquarters to another facility. Such disruptions could materially adversely affect our business and financial results.

Risks Related to Tax Issues

We are a multinational organization faced with increasingly complex tax issues in many jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and results of operations. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and the results of our operations.

Taxing authorities could reallocate our taxable income among our subsidiaries, which could increase our consolidated tax liability.

We conduct operations world-wide through subsidiaries in various tax jurisdictions pursuant to transfer-pricing arrangements between our subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arms length and that contemporaneous documentation is maintained to support the transfer prices. While we believe that we operate in compliance with applicable transfer-pricing laws and intend to continue to do so, our transfer-pricing procedures are not binding on applicable tax authorities. If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arms length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which could result in a higher tax liability to us. In addition, if the country from which the income is reallocated does not agree with the reallocation, both countries could tax the same income, resulting in double taxation. If tax authorities were to allocate income to a higher tax jurisdiction, subject our income to double taxation or assess interest and penalties, it would increase our consolidated tax liability, which could adversely affect our financial condition, results of operations and cash flows.

Table of Contents

Our ability to use net operating loss carryforwards to reduce future tax payments may be limited if we experience a change in ownership, or if taxable income does not reach sufficient levels.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change (generally defined as a greater than 50% change (by value) in its equity ownership over a three year period), the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes (such as research tax credits) to offset its post-change income may be limited. We may experience ownership changes in the future and subsequent shifts in our stock ownership. As a result, we may be limited in the portion of net operating loss carryforwards that we can use in the future to offset taxable income for U.S. Federal income tax purposes.

Risks Related to this Offering and Ownership of our Common Stock

Our stock price is likely to be volatile and could decline following this offering, resulting in a substantial loss on your investment.

Our shares of common stock began trading on the NASDAQ Global Market on March 17, 2011. Given the limited trading history of our common stock, there is a risk that an active trading market for our common stock will not be sustained, which could put downward pressure on the market price of our common stock and thereby affect the ability of our stockholders to sell such shares.

In addition, the trading price of our common stock has at times been volatile and could continue to be subject to significant fluctuations in response to various factors, some of which are beyond our control. For example, after opening at $13.00 per share upon the commencement of our initial public offering, our common stock has experienced an intra-day trading high of $23.50 per share and an intra-day trading low of $16.67 per share. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those listed in this *Risk Factors* section of this prospectus and others, such as:

- our operating performance and the performance of other similar companies;
- the overall performance of the equity markets;
- developments with respect to intellectual property rights;
- publication of unfavorable research reports about us or our industry or withdrawal of research coverage by securities analysts;
- speculation in the press or investment community;
- the size of our public float;
- natural disasters or terrorist acts;
- announcements by us or our competitors of significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- global economic, legal and regulatory factors unrelated to our performance; and

the sale of a substantial number of shares of our common stock by existing securityholders on or after September 12, 2011 upon the expiration of contractual transfer restrictions imposed on such shares in connection with our initial public offering.

Table of Contents

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes incorrect or unfavorable research about our business, our stock price would likely decline. In addition, if one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

We incur significant costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.

As a newly public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the NASDAQ Global Market. Our management team is adapting to the requirements of being a public company. If these requirements divert our management s attention from other business concerns, they could have a material adverse effect on our business, prospects, financial condition and operating results. In addition, complying with these rules and regulations has substantially increased our legal and financial compliance expenses, has made some activities more time-consuming and costly, and may in the future require us to reduce costs in other areas of our business or increase the prices of our solution, which could negatively impact our business.

Our principal stockholders will have a controlling influence over our business affairs and may make business decisions with which you disagree and which may adversely affect the value of your investment.

After this offering, it is anticipated that, based on share ownership as of June 30, 2011, including shares issuable upon the exercise of outstanding options and warrants exercisable within 60 days of June 30, 2011, our executive officers, directors and their affiliates will beneficially own or control, directly or indirectly, in the aggregate shares of our common stock, or approximately % of our outstanding shares, or, if the underwriters option to purchase additional shares is exercised in full, shares of common stock in the aggregate, or approximately % of our outstanding shares. As a result, if some of these persons or entities act together, they will have the ability to control matters submitted to our stockholders for approval, including the election and removal of directors, amendments to our certificate of incorporation and bylaws and the approval of any business combination. These actions may be taken even if they are opposed by other stockholders. This concentration of ownership may also have the effect of delaying or preventing a change of control of our company or discouraging others from making tender offers for our shares, which could prevent our stockholders from receiving a premium for their shares.

Some of these persons or entities may have interests different than yours. For example, because many of these stockholders purchased their shares at prices substantially below the price at which shares are being sold in this offering and have held their shares for a longer period, they may be more interested in selling our company to an acquiror than other investors or may want us to pursue strategies that deviate from the interests of other stockholders.

Table of Contents

There may be sales of a substantial number of shares of our common stock after this offering, which could cause our common stock price to decline significantly.

Additional sales of our common stock in the public market after this offering, or the perception that such sales may occur, could cause the market price of our common stock to decline. Upon the completion of the offering, we will have shares of common stock outstanding, based on shares of common stock outstanding as of June 30, 2011 and assuming the issuance of shares of common stock to be sold in the offering upon the exercise of vested options and warrants outstanding as of June 30, 2011 for which we have received irrevocable elections to exercise immediately prior to, and contingent upon, the completion of the offering, at a weighted-average exercise price of $ per share.

The shares sold in this offering will be freely tradable without restrictions or further registration under the Securities Act unless held by our affiliates. Of the remaining outstanding shares of common stock, shares are eligible for sale on the date of this prospectus, and shares will be eligible for sale on September 12, 2011 upon the expiration of certain contractual transfer restrictions, in each case subject to compliance with Rule 144 or Rule 701 under the Securities Act, if applicable. In addition, in connection with this offering, our directors and officers and the selling stockholders have entered into lock-up agreements with the underwriters that restrict their ability to transfer their shares of our common stock for 90 days from the date of this prospectus. After these lock-up agreements expire, an additional shares of common stock will be eligible for sale in the public market, subject to the limitations of Rule 144 or Rule 701 under the Securities Act, if applicable.

Goldman, Sachs & Co. and Barclays Capital Inc., on behalf of the underwriters, may in their sole discretion, at any time without notice, release all or any portion of the shares subject to the lock-up agreements, which would result in more shares being available for sale in the public market at earlier dates. Sales of common stock by existing stockholders in the public market, the availability of these shares for sale, our issuance of securities or the perception that any of these events might occur could materially and adversely affect the market price of our common stock. In addition, the sale of these shares by these stockholders could impair our ability to raise capital through the sale of additional stock.

As a new investor, you will incur immediate and substantial dilution as a result of this offering.

The assumed public offering price is substantially higher than the pro forma net tangible book value per share of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share, based on an assumed public offering price of $ per share (the closing price of our common stock as reported on the NASDAQ Global Market on , 2011), and new investors will own approximately % of our outstanding common stock. This dilution is due in large part to earlier investors having generally paid substantially less than the assumed public offering price when they purchased their shares. In addition, the exercise of outstanding options and warrants and the vesting of restricted stock units will, and future equity issuances may, result in further dilution to investors.

The issuance of additional stock in connection with acquisitions, our stock incentive plans, warrants or otherwise will dilute all other stockholdings.

Our certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 50,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue all of these shares that are not already outstanding without any action or approval by our stockholders. We intend to continue to evaluate strategic acquisitions in the future. We may pay for such acquisitions, partly or in full, through the issuance of additional equity.

Table of Contents

Any issuance of shares in connection with our acquisitions, the exercise of stock options or warrants, the vesting of restricted stock units or otherwise would dilute the percentage ownership held by the investors who purchase our shares in this offering.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. In addition, our existing credit facilities prohibit us from paying cash dividends, and any future financing agreements may prohibit us from paying any type of dividends. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. Our certificate of incorporation and amended and restated bylaws include provisions that:

- authorize blank check preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- create a classified board of directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of the board, the chief executive officer or the president;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Table of Contents

To the extent that our pre-tax income or loss is relatively small, our ability to conclude that a control deficiency is not a material weakness or that an accounting error does not require a restatement could be adversely affected.

Under the Sarbanes-Oxley Act of 2002, our management is required to assess the impact of control deficiencies based upon both quantitative and qualitative factors, and depending upon that analysis we classify such identified deficiencies as either a control deficiency, significant deficiency or a material weakness. One element of our analysis of the significance of any control deficiency is its actual or potential financial impact. This assessment will vary depending on our level of pre-tax income or loss. For example, a smaller pre-tax income or loss will increase the likelihood of a quantitative assessment of a control deficiency as a significant deficiency or material weakness.

To the extent that our pre-tax income or loss is relatively small, if management or our independent registered public accountants identify an error in our interim or annual financial statements, it is more likely that such an error may be determined to be a material weakness or be considered a material error that could, depending upon the complete quantitative and qualitative analysis, result in our having to restate previously issued financial statements.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the date of this prospectus and our management s good faith belief as of such date with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

our ability to attract new clients to enter into subscriptions for our solution;

our ability to service those clients effectively and induce them to renew and upgrade their deployments of our solution;

our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target;

our ability to accurately forecast revenue and appropriately plan our expenses;

market acceptance of enhanced solutions, alternate ways of addressing learning and talent management needs or new technologies generally by us and our competitors;

continued acceptance of SaaS as an effective method for delivering learning and talent management solutions and other business management applications;

the attraction and retention of qualified employees and key personnel;

our ability to protect and defend our intellectual property;

costs associated with defending intellectual property infringement and other claims;

events in the markets for our solution and alternatives to our solution, as well as in the United States and global markets generally;

future regulatory, judicial and legislative changes in our industry;

changes in the competitive environment in our industry and the markets in which we operate; and other factors discussed under *Risk Factors* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* in this prospectus.

In addition, in this prospectus, the words believe, may, will, estimate, continue, anticipate, intend, expect, predict, potential ar expressions, as they relate to our company, business and management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the future events and circumstances discussed in this prospectus may not occur, and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Forward-looking statements speak only as of the date of this prospectus. You should not put undue reliance on any forward-looking statement. We assume no obligation to update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting future performance or results, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the shares of common stock offered by us will be approximately $, based on an assumed public offering price of $ per share (the closing price of our common stock as reported on the NASDAQ Global Market on , 2011) and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the shares of common stock offered by the selling stockholders, including if the underwriters exercise their option to purchase additional shares, although we may pay the expenses, other than underwriting discounts and commissions, associated with the sale of those shares. See *Principal and Selling Stockholders*.

We expect to use net proceeds received by us from this offering for general corporate purposes, including sales and marketing activities, research and development, general and administrative matters, capital expenditures, and working capital. We may also use a portion of the net proceeds for the acquisition of, or investment in, technologies, solutions or businesses that complement our business, although we have no present understandings, commitments or agreements to enter into any such acquisitions or investments.

The amount and timing of our actual expenditures will depend on numerous factors, including the cash used in or generated by our operations, the status of our development, the level of our sales and marketing, accounting services and consulting services activities, and our technology investments and acquisitions. Our management has discretion over many of these factors. Therefore, we are unable estimate the amount of net proceeds from this offering that will be used for any of the purposes described above. Our management will have broad discretion over the uses of the net proceeds from this offering. Pending the above uses, we intend to invest the net proceeds from this offering in short-term, investment-grade interest-bearing securities, such as money market accounts, certificates of deposit, commercial paper and guaranteed obligations of the U.S. government. We cannot predict whether the invested proceeds will yield a favorable return.

PRICE RANGE OF OUR COMMON STOCK

Our common stock has traded on the NASDAQ Global Market under the symbol CSOD since our initial public offering on March 17, 2011. Prior to that date, our common stock was not traded on any public exchange. The following table sets forth the range of high and low sales prices for our common stock in each quarter since our stock began trading:

2011	**Low**	**High**
First Quarter (from March 17, 2011)	$ 17.30	$ 20.25
Second Quarter	$ 16.67	$ 23.50
Third Quarter (to , 2011)	$	$

On , 2011, the most recent practicable date prior to the date of this prospectus for which information was available, the closing price for our common stock as reported on the NASDAQ Global Market was $ per share. As of June 30, 2011, there were approximately 182 holders of record of our common stock.

Table of Contents

DIVIDEND POLICY

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. Currently, our credit agreement with Silicon Valley Bank prohibits our payment of dividends.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization at March 31, 2011:

on an actual basis; and

on a pro forma basis to give effect to (i) the issuance of shares of common stock to be sold in the offering upon the exercise of vested options and warrants immediately prior to the completion of this offering, with aggregate proceeds to us from such exercise of $ million, and (ii) the sale of shares of common stock in this offering at an assumed public offering price of $ per share (the closing price of our common stock as reported on the NASDAQ Global Market on , 2011), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	As of March 31, 2011	
	Actual	Pro Forma(1)
	(in thousands, except share data)	
Cash and cash equivalents	$ 91,045	$
Capital lease obligations, net of current portion	$ 1,580	$
Stockholders equity:		
Common stock, $0.0001 par value; 1,000,000,000 shares authorized, 47,518,172 shares issued and outstanding, actual; shares issued and outstanding, pro forma	5	
Additional paid-in capital	219,142	
Accumulated deficit	(148,344)	
Accumulated other comprehensive loss	(109)	
Total stockholders equity	70,694	
Total capitalization	$ 72,274	$

(1) A $1.00 increase (decrease) in the assumed public offering price of $ per share would increase (decrease), on a pro forma basis, each of cash and cash equivalents, additional paid-in capital, total stockholders equity and total capitalization by approximately $ million, assuming the number of shares offered by us (as set forth on the cover page of this prospectus) remains the same and after deducting assumed underwriting discounts and commissions and estimated expenses payable by us. The pro forma information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

The number of shares of common stock set forth in the table above excludes:

shares of common stock issuable upon the exercise of warrants outstanding as of March 31, 2011 at a weighted-average exercise price of $ per share, which will remain outstanding after this offering, unless earlier exercised;

shares of common stock issuable upon the exercise of options at a weighted-average exercise price of $ per share and 312,000 shares of common stock issuable under restricted stock units, each outstanding as of March 31, 2011;

225,750 shares of common stock issuable upon the exercise of options at an exercise price of $17.92 per share, each granted on July 1, 2011; and

an aggregate of approximately 3,537,030 shares of common stock that were reserved for future issuance under our equity incentive plans as of March 31, 2011.

Table of Contents

Additional shares will become available for issuance under our equity incentive plans following the offering as a result of (i) cancellation of options or repurchases of shares outstanding under our 1999 Equity Incentive Plan and 2009 Equity Incentive Plan and (ii) automatic annual increases in the number of shares reserved under our equity incentive plans. For more information, see *Executive Compensation Employee Benefit and Stock Plans*.

Table of Contents

DILUTION

If you invest in our common stock, you will experience immediate and substantial dilution in the pro forma net tangible book value of your shares. Dilution in pro forma net tangible book value represents the difference between the public offering price per share of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock immediately after the completion of the offering.

As of March 31, 2011, we had a net tangible book value of approximately $70.0 million, or $1.47 per share, based on 47,518,172 shares of common stock outstanding as of such date. Historical net tangible book value per share represents our total tangible assets (total assets less intangible assets) less our total liabilities, divided by the number of outstanding shares of our common stock.

After giving effect to (i) the issuance of shares of common stock to be sold in the offering upon the exercise of vested options and warrants outstanding as of March 31, 2011 for which we have received irrevocable elections to exercise immediately prior to, and contingent upon, the completion of the offering at a weighted-average exercise price of $ per share; and (ii) the issuance of shares of our common stock in this offering and the receipt by us of net proceeds of $ from our sale of such shares at the public offering price, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of March 31, 2011 would have been approximately $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing common stock in this offering.

The following table illustrates this dilution on a per share basis to new investors:

Assumed offering price per share		$
Net tangible book value per share at March 31, 2011	$ 1.47	
Increase per share attributable to exercise of options and warrants		
Pro forma net tangible book value per share before this offering		
Increase per share attributable to this offering from new investors		
Pro forma net tangible book value per share, as adjusted to give effect to this offering		
Dilution in pro forma net tangible book value per share to new investors in this offering		$

To the extent that any outstanding options or warrants are exercised, any outstanding restricted stock units vest, or additional options, warrants, restricted stock units or other equity securities are issued, new investors will experience further dilution. As of March 31, 2011, we had outstanding:

- warrants exercisable for shares of common stock, at a weighted-average exercise price of $ per share, that will remain outstanding after this offering unless earlier exercised;

- options exercisable for shares of common stock, at a weighted-average exercise price of $ per share, that will remain outstanding after this offering unless earlier exercised; and

- restricted stock units covering 312,000 shares of common stock.

On July 1, 2011, we granted options to purchase 225,750 shares of common stock at an exercise price of $17.92 per share. Following this offering, additional shares will become available for issuance under our equity incentive plans as a result of (i) cancellation of options or repurchases of shares outstanding under our 1999 Equity Incentive Plan and 2009 Equity Incentive Plan and (ii) automatic annual increases in the number of shares reserved under our equity incentive plans. For more information, see Executive Compensation Employee Benefit and Stock Plans.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

The statements of operations data for the years ended December 31, 2008, 2009 and 2010 and the balance sheet data at December 31, 2009 and 2010 are derived from our audited financial statements included elsewhere in this prospectus. The statements of operations data for the year ended December 31, 2007 are derived from audited financial statements not included in this prospectus. The statement of operations data for the year ended December 31, 2006 and the balance sheet data at December 31, 2006 and 2007 are derived from our unaudited financial statements not included in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2010 and 2011 and balance sheet data at March 31, 2011 are derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited financial statements and include, in the opinion of management, all adjustments necessary for the fair statement of the financial information contained in those statements. Our historical results are not necessarily indicative of the results to be expected in the future.

You should read the selected consolidated financial data below in conjunction with *Management s Discussion and Analysis of Financial Condition and Results of Operations* and the consolidated financial statements, related notes and other financial information included elsewhere in this prospectus. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this prospectus.

	Years Ended December 31,					Three Months Ended March 31,	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
Consolidated statements of operations data:							
Gross revenue[1]	$ 7,280	$ 10,976	$ 19,626	$ 29,322	$ 46,608	$ 9,670	$ 15,747
Common stock warrant charge[1]					(2,877)		
Net revenue	7,280	10,976	19,626	29,322	43,731	9,670	15,747
Cost of revenue	2,246	3,911	6,116	8,676	14,280	3,064	4,579
Gross profit	5,034	7,065	13,510	20,646	29,451	6,606	11,168
Operating expenses:							
Sales and marketing	4,915	9,343	16,914	18,886	28,134	6,366	9,845
Research and development	947	1,754	2,724	2,791	5,602	1,004	2,322
General and administrative	1,426	2,653	2,564	4,329	8,555	1,416	3,553
Total operating expenses	7,288	13,750	22,202	26,006	42,291	8,786	15,720
Loss from operations[1]	(2,254)	(6,685)	(8,692)	(5,360)	(12,840)	(2,180)	(4,552)
Other income (expense):							
Interest income (expense) and other income (expense), net	(442)	(144)	(639)	(813)	(1,320)	(335)	(448)
Change in fair value of preferred stock warrant liabilities[2]		1,147	(790)	(2,147)	(34,073)	(1,272)	(42,559)
Loss before provision for income taxes	(2,696)	(5,682)	(10,121)	(8,320)	(48,233)	(3,787)	(47,559)
Provision for income taxes		(20)	(62)	(72)	(137)	(30)	(34)
Net loss	$ (2,696)	$ (5,702)	$ (10,183)	$ (8,392)	$ (48,370)	$ (3,817)	$ (47,593)

38

	Years Ended December 31,					Three Months Ended March 31	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands, except per share data)						
Excess of fair value of consideration transferred over carrying value on redemption of Series A preferred stock		(2,425)					
Accretion of redeemable preferred stock		(211)	(337)	(2,072)	(8,235)	(764)	(5,208)
Net loss attributable to common stockholders	$ (2,696)	$ (8,338)	$ (10,520)	$ (10,464)	$ (56,605)	$ (4,581)	$ (52,801)
Net loss per share attributable to common stockholders, basic and diluted(3)	$ (0.31)	$ (0.97)	$ (1.25)	$ (1.24)	$ (6.15)	$ (0.54)	$ (3.65)
Weighted average common shares outstanding, basic and diluted	8,833	8,562	8,387	8,467	9,206	8,526	14,453

(1) During the fourth quarter of 2010, we recorded a $2.9 million reduction of revenue associated with a common stock warrant. There were no reductions of revenue in prior periods. We have presented gross revenue excluding this non-cash common stock warrant charge because this charge does not relate to sales activity in the period, and we do not consider the issuance of warrants to be indicative of our core operating performance. See *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Offsets to Revenue* for additional information about common stock warrants that are accounted for as reductions of revenue.

(2) During March 2011, all of our warrants to purchase shares of preferred stock were exercised, and all outstanding shares of preferred stock were converted into shares of common stock on a one-for-one basis. At that time, the preferred stock warrant liabilities were reclassified to additional paid-in capital, and as a result, we no longer record any change in the fair value of these liabilities in our statements of operations.

(3) See Notes 2 and 3 to our consolidated financial statements for a description of the method to compute basic and diluted net loss per share attributable to common stockholders.

	At December 31,					At March 31,
	2006	2007	2008	2009	2010	2011
	(in thousands)					
Consolidated balance sheet data:						
Cash and cash equivalents	$ 548	$ 11,109	$ 3,290	$ 8,061	$ 7,067	$ 91,045
Property and equipment, net	369	758	1,018	2,229	3,976	3,831
Working capital (deficit), excluding deferred revenue	(388)	10,111	5,540	14,399	18,889	97,922
Total assets	5,543	19,247	15,934	27,017	42,894	119,667
Debt, current portion	3,294	4,650	4,300	2,014	14	6
Deferred revenue, current and non-current portion	5,088	9,131	14,361	19,507	33,818	32,403
Capital lease obligations, net of current portion	33	236	338	1,158	1,523	1,580
Long-term debt, net of current portion		2,639	2,552	4,045	8,705	
Preferred stock warrant liabilities	338	1,493	2,282	5,683	39,756	
Convertible preferred stock	11,619	23,493	23,830	33,854	42,089	
Total stockholders equity (deficit)	(16,536)	(25,094)	(35,270)	(45,378)	(97,231)	70,694

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read together with *Prospectus Summary Summary Consolidated Financial Data*, *Selected Consolidated Financial Data* and our consolidated financial statements and accompanying notes included elsewhere within this prospectus. This discussion includes both historical information and forward-looking information that involves risks, uncertainties and assumptions. Our actual results may differ materially from management s expectations as a result of various factors, including but not limited to those discussed in the sections entitled *Risk Factors* and *Special Note Regarding Forward-Looking Statements*.

Overview

We are a leading global provider of a comprehensive learning and talent management solution delivered as software-as-a-service, or SaaS. We enable organizations to meet the challenges they face in empowering their people and maximizing the productivity of their human capital. These challenges include developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders and enabling an organization s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content. We currently have over 560 clients who use our solution to empower over 5.22 million users across 179 countries and 25 languages.

Our solution consists of five integrated platforms for learning management, enterprise social networking, performance management, succession planning and extended enterprise. Clients can purchase these platforms individually and easily add and integrate additional platforms at any time. We offer a number of cross-platform tools for analytics and reporting, employee profile management, employee on-boarding and e-learning content aggregation. We also provide consulting services for configuration and training for our solution as well as third-party e-learning content for use with our solution.

We founded our business in 1999 to improve access to education through the distribution of online educational content to individuals, small businesses and large corporations. Our distribution platform was built using Internet technologies that are now known as software-as-a-service. When the Internet bubble burst in 2000, we focused on corporations that needed tools to manage compliance and on-boarding of employees as well as to link learning to employee performance, leadership development and knowledge management. As a result of our work with clients to address their particular challenges, we had as early as 2001 developed the foundation for a comprehensive learning and talent management solution that included platforms for learning management, succession planning, performance management, and knowledge management, which has evolved into enterprise social networking. In 2006, we added our extended enterprise platform.

Global 500 companies were among our first clients. In our early years, we focused primarily on building our account management and support capabilities to be able to service these large clients more effectively. Sales were initially constrained by the resistance of some large corporations to purchase SaaS solutions. By the mid-2000s, however, our market opportunity increased significantly with both the adoption of SaaS solutions generally by large enterprises and the market s recognition of learning and talent management as a distinct industry.

In response to these positive trends, we raised our first round of institutional venture capital in May 2007. We used this capital to serve clients across multiple industries, geographies and enterprise types by increasing the number of our direct sales personnel, both domestically and internationally,

Table of Contents

and by expanding our indirect channels through distribution relationships. Between December 2007 and March 2011, our number of users increased from 859,000 to 5,221,000. In 2009, after a highly competitive process involving a number of potential providers, ADP chose to enter into a distributor agreement with us that allows ADP to sell our solution globally.

We generate most of our revenue from sales of our solution pursuant to multi-year client agreements. Our sales typically involve competitive processes, with sales cycles that generally vary in duration from two to nine months depending on the size of the potential client. We price our solution based on the number of platforms the client can access and the permitted number of users with access to each platform. Our client agreements typically have terms of three years. We also generate revenue from consulting services for configuration, training, and consulting, as well as from the resale or hosting of third-party e-learning content.

We recognize revenue from subscriptions ratably over the term of the client agreement and revenue from consulting services as these services are performed. Where we have a direct sales relationship with a client, we generally invoice the annual subscription fee associated with a multi-year subscription in advance on an annual basis. In addition, we generally invoice the consulting services fees up front upon signing. Where we interact with a client through a reseller relationship, our payment terms will follow the payment terms generally offered by the reseller to its customers. We record amounts invoiced for portions of annual subscription periods that have not occurred or for services that have not been performed as deferred revenue on our balance sheet. With the growth in the number of client agreements related to our solution, our deferred revenue has grown from $9.1 million at December 31, 2007 to $33.8 million at December 31, 2010. Our net revenue has grown from $19.6 million for 2008 to $29.3 million for 2009 and to $43.7 million for 2010, and from $9.7 million for the three months ended March 31, 2010 to $15.7 million for the three months ended March 31, 2011.

We generate sales of our solution primarily through our direct sales teams and, to a lesser extent, indirectly through our distributors. We intend to accelerate our investment in our direct sales and distribution activities to continue to address our market opportunity.

We target our sales and marketing efforts at large and mid-sized clients, and our solution can be used in all industry vertical segments. We also continue to market and sell to existing clients, who may renew their subscriptions, add platforms, broaden the deployment of our solution across their organizations and increase the usage of our solution over time. For 2009 and 2010, no single client or distributor accounted for more than 10% of our revenue. Our number of clients has grown from 105 at December 31, 2007 to 481 at December 31, 2010 and to 562 at March 31, 2011.

We have historically experienced seasonality in terms of when we enter into client agreements for our solution. We sign a significantly higher percentage of agreements with new clients, as well as renewal agreements with existing clients, in the fourth quarter of each year and usually sign a significant portion of these agreements during the last month, and with respect to each quarter, often the last two weeks, of the quarter. We believe this seasonality is driven by several factors, most notably the tendency of procurement departments at our enterprise clients to purchase technology at the end of a quarter or calendar year, possibly in order to use up their available quarterly or annual funding allocations, or to be able to deploy new talent management capabilities prior to the beginning of a new financial or performance period. As the terms of most of our client agreements are measured in full year increments, agreements initially entered into the fourth quarter or last month of any quarter will generally come up for renewal at that same time in subsequent years. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the client agreement, which is generally three years. We expect this seasonality to continue in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus limit our ability to predict future results. Consistent with the historical seasonality of when we enter into client agreements, including an increased number

Table of Contents

of new client agreements entered into during the fourth quarter of each year, and the timing in which we invoice our clients for annual subscription periods, our deferred revenue decreased from $33.8 million at December 31, 2010 to $32.4 million at March 31, 2011.

We believe the market for learning and talent management remains large and underpenetrated, providing us with significant growth opportunities. We expect businesses and other organizations to continue to increase their spending on learning and talent management solutions in order to maximize productivity of their employees, manage changing workforce demographics and ensure compliance with global regulatory requirements. International Data Corporation, or IDC, estimates that total spending on SaaS and legacy software for workforce, e-learning, e-recruiting, intelligent compensation and performance management was $3.6 billion in 2009.[3] Historically, many of these software solutions have been human resource applications running on hardware located on organizations premises. However, we believe that just as organizations have increasingly chosen SaaS solutions for business applications such as sales force management, they are also increasingly adopting SaaS learning and talent management solutions. According to IDC, the overall SaaS market totaled $13.1 billion in revenue in 2009, representing 5.7% of worldwide software spending across all primary markets, and is expected to grow to $32.4 billion by 2013, representing 13.4% of worldwide software spending across all primary markets.[4]

We have focused on growing our business to pursue this significant market opportunity, and we plan to continue to invest in building for growth. As a result, we expect our cost of revenue and operating expenses will increase in future periods. Sales and marketing expenses are expected to increase, as we continue to expand our direct sales teams, increase our marketing activities, and grow our international operations. Research and development expenses are expected to increase as we improve the existing functionality for our solution. We also believe that we must invest in maintaining a high degree of client service and support that is critical for our continued success. We plan to continue our policy of implementing best practices across our organization, expanding our technical operations and investing in our network infrastructure and services capabilities in order to support continued future growth. We also expect to incur additional general and administrative expenses as a result of both our growth and transition as a public company.

From inception through December 2010, we raised $37.0 million of equity capital. Our deliberate and disciplined capital deployment and growth strategy has enabled us to weather periods of economic down-turns and significant changes in the markets we serve without undergoing layoffs or business contraction. We plan to employ a similar approach to capital deployment and growth in the future.

Initial Public Offering

In March 2011, we completed our initial public offering in which we sold 7,500,000 shares of common stock at a price of $13.00 per share. Our shares are traded on the NASDAQ Global Market. We received proceeds from our initial public offering of $90.5 million, net of underwriting discounts and commissions but before offering expenses of $3.9 million.

As part of the offering, an additional 4,575,000 shares of common stock were sold by certain existing stockholders at a price of $13.00 per share, including 1,575,000 shares sold by such stockholders upon the exercise of the underwriters option to purchase additional shares. We did not receive any of the proceeds from the sale of such shares by the selling stockholders.

3 IDC, Worldwide HCM Applications 2008 Vendor Shares: Analysis of 25 Vendors in Core HR, eLearning, eRecruiting, Intelligent Compensation, Performance Management, and Workforce Management, Doc.# 221284, Dec 2009.
4 IDC, Worldwide Software as a Service 2010-2014 Forecast: Software Will Never Be the Same, Doc.#223628, Jun 2010.

Table of Contents

Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

	At or For the Year Ended December 31,				At or For the Three Months Ended March 31,	
	2007	2008	2009	2010	2010	2011
Bookings (in thousands)	$ 15,019	$ 24,857	$ 34,467	$ 60,919	$ 9,237	$ 14,332
Annual dollar retention rate	96.1%	89.9%	94.8%	95.8%	N/A	N/A
Number of clients	105	168	280	481	310	562
Number of users (rounded to nearest thousand)	859,000	2,065,000	3,347,000	4,928,000	3,773,000	5,221,000

Bookings. Under our revenue recognition policy, we generally recognize subscription revenue from our client agreements ratably over the terms of those agreements. For this reason, the major portion of our revenue for a period will be from client agreements signed in prior periods rather than new business activity during the current period. In order to assess our business performance with a metric that more fully reflects current period business activity, we track bookings, which we define as the sum of gross revenue and the change in the deferred revenue balance for the period. We include changes in the deferred revenue balance in bookings to reflect new business activity in the period evidenced by prepayments or billings under our billing policies arising from acquisition of new clients, sales of additional platforms to existing clients, the addition of incremental users by existing clients and client renewals. We exclude non-cash reductions of revenue related to the issuance of common stock warrants because these charges do not relate to sales activity in the period, and we do not consider the issuance of warrants to be indicative of our core operating performance. Bookings are affected by our billing terms, and any changes in those billing terms may shift bookings between periods. Due to the seasonality of our sales, bookings growth is highly inconsistent from quarter to quarter throughout a calendar year.

Annual dollar retention rate. We define annual dollar retention rate as the implied monthly recurring revenue under client agreements at the end of a fiscal year, divided by the implied monthly recurring revenue, for that same client base, at the end of the prior fiscal year. This ratio does not reflect implied monthly recurring revenue for new clients added nor incremental sales to that same client base at the end of the prior fiscal year during the current fiscal year. We define implied monthly recurring revenue as the total amount of minimum recurring revenue contractually committed to, under each of our client agreements over the entire term of the agreement, but excluding non-recurring support, consulting and maintenance fees, divided by the number of months in the term of the agreement. Implied monthly recurring revenue is substantially comprised of subscriptions to our solution. We believe that our annual dollar retention rate is an important metric to measure the long-term value of client agreements and our ability to retain our clients.

Number of clients. We believe that our ability to expand our client base is an indicator of our market penetration and the growth of our business as we continue to invest in our direct sales teams and distributors.

Number of users. Since our clients generally pay fees based on the number of users of our solution within their organizations, we believe the total number of users is an indicator of the growth of our business.

Table of Contents

Key Components of Our Results of Operations

Sources of Revenue and Revenue Recognition

Our solution is designed to enable organizations to meet the challenges they face in maximizing the productivity of their human capital. We generate revenue from the following sources:

Subscriptions to Our Solution. Clients pay subscription fees for access to our comprehensive learning and talent management solution for a specified period of time, typically three years. Fees are based primarily on the number of platforms the client can access and the number of users having access to those platforms. We generally recognize revenue from subscriptions ratably over the term of the agreement.

Consulting Services. We offer our clients assistance in implementing our solution and optimizing its use. Consulting services include application configuration, system integration, business process re-engineering, change management and training services. Services are billed either on a time-and-material or a fixed-fee basis. These services are generally purchased as part of a subscription arrangement and are typically performed within the first several months of the arrangement. Clients may also purchase consulting services at any other time. Our consulting services are performed by us directly or by third-party service providers we hire. Clients may also choose to perform these services themselves or hire their own third-party service providers. We generally recognize revenue from consulting services using the proportional performance method over the period the services are performed.

E-learning Content. We resell third-party on-line training content, which we refer to as e-learning content, to our clients. We also host other e-learning content provided to us by our clients. We generally recognize revenue from the resale of e-learning content as it is delivered and recognize revenue from hosting as the hosting services are provided.

Our client agreements generally include both a subscription to access our solution and related consulting services, and may also include e-learning content. Our agreements generally do not contain any cancellation or refund provisions other than in the event of our default. In connection with our global distributor agreement with ADP, if warrants are issued to ADP, we record reductions of revenue for the fair value of warrants issued. Upon the completion of our initial public offering, ADP was no longer eligible to earn warrants under the warrant agreement. However, ADP was eligible to earn a warrant for the partial contract year that began on July 1, 2010 and ended on March 22, 2011, the closing date of our initial public offering, if it met pro-rated specified sales targets for that period. See Note 8 to the notes to consolidated financial statements and *Critical Accounting Policies and Estimates Offsets to Revenue* for a description of the accounting policies relating to revenue recognition, including accounting policies relating to reductions of revenue and arrangements that include multiple deliverables.

Cost of Revenue

Cost of revenue consists primarily of costs related to hosting our solution; personnel and related expenses, including stock-based compensation, for network infrastructure, IT support, consulting services and on-going client support; payments to external service providers; amortization of capitalized software costs and trademarks; licensing fees; and referral fees. In addition, we allocate a portion of overhead, such as rent, IT costs, depreciation and amortization and employee benefits costs, to cost of revenue based on headcount. The costs associated with providing consulting services are significantly higher as a percentage of revenue than the costs associated with providing access to our solution due to the labor costs to provide the consulting services.

We plan to continue our efforts to manage cost of revenue. For example, we are automating certain client integration services, and in the fourth quarter of 2010, we completed the transition of our network infrastructure from a fully managed third-party hosting environment to self-managed co-location facilities. We expect the co-location facilities to scale and support our continued growth on a more cost-effective basis than a fully managed third-party environment.

Operating Expenses

Our operating expenses are as follows:

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff including salaries, benefits, bonuses, stock-based compensation and commissions; costs of marketing and promotional events, corporate communications, online marketing, product marketing and other brand-building activities; and allocated overhead.

We intend to continue to invest in sales and marketing and expect spending in these areas to increase as we continue to expand our business both domestically and internationally. We expect sales and marketing expenses to continue to be among the most significant components of our operating expenses.

Research and Development. Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, bonuses and stock-based compensation; the cost of certain third-party service providers; and allocated overhead. Research and development costs, other than software development expenses qualifying for capitalization, are expensed as incurred.

We have focused our research and development efforts on continuously improving our solution. We believe that our research and development activities are efficient, because we benefit from maintaining a single software code base for our solution. We expect research and development expenses to increase in absolute dollars in the future, as we scale our research and development department and expand out our network infrastructure.

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for administrative, legal, finance and human resource staffs, including salaries, benefits, bonuses and stock-based compensation; professional fees; insurance premiums; other corporate expenses; and allocated overhead.

We expect our general and administrative expenses to increase as we continue to expand our operations, hire additional personnel and transition from being a private company to a public company. In transitioning to a public company, we expect to incur increased expenses related to increased outside legal counsel assistance, accounting and auditing activities, compliance with the SEC requirements and enhancing our internal control environment through the adoption and administration of new corporate policies.

Other

Interest Income (Expense) and Other Income (Expense), Net. Interest income (expense) and other income (expense), net, consists primarily of interest expense from borrowings under our credit facility and our promissory notes; capital lease payments; amortization of debt issuance costs and debt discounts; and income and expense associated with fluctuations in foreign currency exchange rates. Interest income (expense) and other income (expense), net, was insignificant as a percentage of revenue in 2008, 2009 and 2010.

Change in Fair Value of Preferred Stock Warrant Liabilities. Preferred warrant liabilities are the result of warrants issued in connection with our long-term debt and preferred stock financings. Changes in the fair value of our preferred stock occur in connection with changes in the overall value of our company. In connection with our initial public offering, all of our

Table of Contents

warrants to purchase shares of preferred stock were exercised, and as a result, we no longer record any changes in the fair value of these liabilities in our statements of operations.

Provision for Income Taxes

The provision for income taxes is related to certain state and foreign income taxes. As we have incurred operating losses in all periods to date and recorded a full valuation allowance against our deferred tax assets, we have not historically recorded a provision for federal income taxes.

Critical Accounting Policies and Estimates

Our financial statements and the related notes included elsewhere in this prospectus are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, cost of revenue, operating expenses, other income and expenses, provision for income taxes and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between our estimates and our actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe the assumptions and estimates associated with the following have the greatest potential impact on our financial statements: revenue recognition; sales commissions; stock-based compensation; allowance for doubtful accounts; capitalized software costs; impairment of our long-lived assets, including software capitalized software costs; income taxes; and fair value of warrants.

Revenue Recognition and Deferred Revenue

We recognize revenue when: (i) persuasive evidence of an arrangement for the sale of our solution or consulting services exists, (ii) our solution has been made available or delivered, or our services have been performed, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. The timing and amount we recognize as revenue is determined based on the facts and circumstances of each client arrangement. Evidence of an arrangement consists of a signed client agreement. We consider that delivery of our software has commenced once we provide the client with log-in information to access and use our solution. If non-standard acceptance periods or non-standard performance criteria exist, revenue recognition commences upon the satisfaction of the acceptance or performance criteria, as applicable. Our fees are fixed based on stated rates specified in the client agreement. We assess collectability based in part on an analysis of the creditworthiness of each client, as well as other relevant economic or financial factors. If we do not consider collection reasonably assured, we defer the revenue until the fees are actually collected. We record amounts that have been invoiced to our clients in accounts receivable and as either deferred revenue on our balance sheet or revenue on our statement of operations, depending on whether the revenue recognition criteria have been met.

The majority of our client arrangements include multiple deliverables, such as subscriptions to our software solution accompanied by consulting services. We, therefore, recognize revenue in accordance with the guidance for arrangements with multiple deliverables under Accounting Standards Update 2009-13 *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a Consensus of the Emerging Issues Task Force*, or ASU 2009-13 (formerly known as EITF 08-1,

Table of Contents

Revenue Arrangements with Multiple Deliverables). As our clients do not have the right to the underlying software code of our solution, our revenue arrangements are outside the scope of software client recognition guidance.

For such arrangements, we first assess whether each deliverable has value to the client on a standalone basis. Our solution has standalone value because once we give a client access, our solution is fully functional and does not require any additional development, modification or customization. Our consulting services have standalone value because third-party service providers, distributors or our clients themselves can perform these services without our involvement. The consulting services we provide are to assist clients with the configuration and integration of our solution. The performance of these services does not require highly specialized individuals.

Based on the standalone value of our deliverables, and, since clients generally do not have a right of return relative to the included consulting services, we allocate revenue among the separate deliverables under the relative selling price method using the selling price hierarchy established in ASU 2009-13. This hierarchy requires the selling price of each deliverable in a multiple deliverables arrangement to be based on, in declining order of preference, (i) vendor-specific objective evidence of fair value, or VSOE, (ii) third-party evidence of fair value, or TPE, (iii) management s best estimate of the selling price, or BESP.

We are not able to determine VSOE or TPE for our deliverables because we sell them separately and within a sufficiently narrow price range only infrequently, and because we have determined that there are no third-party offerings reasonably comparable to our solution. Accordingly, we determine the selling prices of subscriptions to our solution, consulting services and e-learning content based on BESP. In determining BESP for subscriptions to our solution, we consider the size of client arrangements, as measured by number of users; whether the sales were made by our direct sales team or distributors; and whether the sales are to a domestic or an international client. We group sales of our solution into multiple different categories based on these criteria. We then compute an average selling price for each group. This average selling price represents our BESP for that type of client arrangement. For consulting services, we analyze both bundled arrangements that include subscriptions to our solution and consulting services, as well as standalone purchases of different types of consulting services made subsequent to the original subscription. For these consulting services arrangements, we then examine the actual rate per hour we charge or, for fixed fee arrangements, the implied average rate per hour based on the fixed fee divided by the estimated hours to complete the service. The BESP is then the product of this average rate per hour and our estimate of the hours needed to complete the services. In evaluating and arriving at BESP for consulting services, we also consider the reasonableness of the implied gross margins, as indicated by our internal costs to deliver such services, as well as comparisons to rates per hour for information technology consulting services in our industry generally. For e-learning content, we estimate BESP by reviewing fees for content and content-hosting in order to establish an average annual fee per user that reflects the cost we incur to acquire the related content from third-party providers.

The determination of BESP for our deliverables as described above requires us to make significant estimates and judgments, including the comparability of different subscription arrangements and consulting services and estimates of the hours required to complete various types of services. In addition, we consider other factors including:

Nature of the deliverables themselves. For example, in categorizing our subscriptions into meaningful groupings for determining BESP, we consider the number and type of platforms of our solution the client purchased. For consulting services, we consider the type of consulting service and the estimated hours required to complete the service based on our historical experience.

Table of Contents

Location of our clients. Our pricing is different for domestic and international clients, and therefore in determining BESP of subscriptions to our solution, we evaluate domestic arrangements separately from international arrangements.

Market conditions and competitive landscape for the sale. Our pricing and discounting varies based on the economic environment and competition. We consider these factors in determining the grouping of comparable services and the periods over which we compare arrangements to compute the BESP.

Internal costs. Our pricing for consulting services and e-learning content considers our internal costs to provide the consulting services and the third-party purchase costs of e-learning content.

Size of the arrangement. Discounting generally increases as the relative size of an arrangement increases, and we take this into consideration in the grouping of our clients to determine BESP. Our discounting for multiple-deliverable arrangements varies based on the extent and type of the consulting services and content included with the subscriptions in the arrangement.

The determination of BESP is made through consultation with, and formal approval by, our senior management. We update our estimates of BESP on an ongoing basis as events and circumstances require, and we update our determination to use BESP on a semi-annual basis, including assessing whether we can determine VSOE or TPE.

After we determine the fair value of revenue allocable to each deliverable based on the relative selling price method, we recognize the revenue for each based on the type of deliverable. For subscriptions to our solution, we recognize the revenue on a straight-line basis over the term of the client agreement, which is typically three years. For consulting services, we generally recognize revenue using the proportional performance method over the period the services are performed.

In a limited number of cases, our multiple deliverables arrangements include consulting services that do not have value on a standalone basis separate from our solution, such as when the client s intended use of our solution requires enhancements to underlying features and functionality. In these cases, we recognize revenue for the arrangement as one unit of accounting on a straight-line basis over the term of the client agreement, once the consulting services that do not have value on a standalone basis have been completed and accepted by the client.

For arrangements in which we resell third-party e-learning content to our clients or host client or third-party e-learning content provided by the client, we recognize revenue in accordance with accounting guidance as to when to report gross revenue as a principal and when to report net revenue as an agent. We recognize e-learning content revenue in the gross amount that we invoice our client when: (i) we are the primary obligor, (ii) we have latitude to establish the price charged and (iii) we bear the credit risk in the transaction. For arrangements involving our sale of e-learning content, we charge our clients for the content based on pay-per-use or a fixed rate for a specified number of users and recognize the gross amount invoiced as revenue as the content is delivered. For arrangements where clients purchase e-learning content directly from a third-party, or provide it themselves, and we integrate the content into our solution, we charge a hosting fee. In such cases, we recognize the amount invoiced for hosting as the content is delivered, excluding any portion we invoice that is attributable to fees the third-party charges for the content.

Offsets to Revenue

On May 6, 2009, we entered into a five-year global distributor agreement with ADP that provides ADP the right to distribute our software solution to its customers under ADP s name. In connection with the distributor agreement, we also entered into a warrant agreement to provide additional incentives to

Table of Contents

ADP. The warrant agreement provided that ADP was eligible to earn fully vested and immediately exercisable ten-year warrants to purchase between zero and 886,096 shares of our common stock at an exercise price of $0.53 per share if ADP met specified sales targets for each contract year until the earlier of the completion of the five-year term of the distributor agreement or the completion of an initial public offering of our common stock.

When ADP achieved the defined sales targets and earned a warrant for a contract year, we recorded the fair value of such warrant as a reduction of revenue. We determine the fair value of these warrants using a Black-Scholes option-pricing model, which incorporates several estimates and assumptions that are subject to significant judgment. The warrants must be exercised immediately prior to an acquisition of us through a reorganization, merger or consolidation; immediately prior to a sale, lease or other disposition of all of our assets; or within three years after an initial public offering.

On November 24, 2010, we amended our warrant agreement with ADP to modify certain definitions related to future sales targets, to acknowledge that no warrants would be issued for the contract year ended June 30, 2010 and to remove the anti-dilution provisions in the warrant agreement. In connection with the amendment, we issued ADP a fully vested and non-forfeitable warrant to purchase 360,000 shares of our common stock at an exercise price of $0.01 per share, which was valued at approximately $2.9 million as of the amendment date, using the Black-Scholes option pricing model. We recorded this amount as a reduction of revenue in the fourth quarter of 2010, as the distributor agreement provides ADP with the right to distribute our services, and we estimated that ADP would purchase additional services from us. In issuing this warrant, we considered the strategic importance of our ongoing relationship with ADP and the expected timing of the completion of our initial public offering, after which ADP would no longer be eligible to earn any warrants.

At December 31, 2010, we did not record any reduction in revenue for the contract year ending June 30, 2011, as the minimum specified sales target had not been achieved to earn the applicable warrant as of December 31, 2010.

Upon the completion of our initial public offering in March 2011, ADP was no longer eligible to earn warrants under the warrant agreement. However, ADP was eligible to earn a warrant for the partial contract year that began on July 1, 2010 and ended on March 22, 2011, the closing date of our initial public offering, if it met pro-rated specified sales targets for that period.

For the three months ended March 31, 2011, no reductions of revenue were recorded based on our conclusion that ADP had not met the pro-rated specified sales targets for such partial contract year based on our assessment of the contractual terms of the arrangement, and, as of March 31, 2011, it was not considered probable that we would be required to issue a warrant for such partial contract year. Pursuant to the terms of the arrangement, we notified ADP that it had not earned the warrant for such partial year. ADP contended that it had met the pro-rated specified sales target for the partial contract year that would entitle ADP to a warrant to purchase 443,048 shares of our common stock at an exercise price of $0.53 per share.

In June 2011, in order to resolve a dispute with respect to this matter, we issued ADP a fully vested and non-forfeitable warrant to purchase 133,000 shares of our common stock at an exercise price of $0.53 per share. The warrant was valued at $2.5 million using a Black-Scholes option-pricing model as of the issuance date and was recorded as a non-cash reduction of revenue in the quarter ended June 30, 2011. In connection with the issuance of this warrant, ADP agreed and acknowledged that it is no longer eligible to earn or receive any additional warrants exercisable for shares of our common stock pursuant to the distributor agreement.

Table of Contents

Accounting for Commission Payments

We defer commissions paid to our sales force because these amounts are recoverable from future revenue from the non-cancelable client agreements that gave rise to the commissions. We defer expense recognition upon payment and amortize expense to sales and marketing expenses over the term of the client agreement in proportion to the revenue that is recognized. Commissions are direct and incremental costs of our client agreements. We generally pay commissions in the periods we receive payment from the client under the associated client agreement.

Stock-based Compensation

We account for stock-based awards granted to employees and directors by recording compensation expense based on the awards estimated fair values. We expect that our expense related to stock-based compensation will increase over time.

We estimate the fair value of our stock-based awards as of the date of grant using the Black-Scholes option-pricing model. Determining the fair value of stock-based awards under this model requires judgment, including estimating the value per share of our common stock prior to our initial public offering, estimated volatility, expected term of the awards, estimated dividend yield and the risk-free interest rate. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, based on management s judgment and subjective future expectations. These estimates involve inherent uncertainties. If any of the assumptions used in the model change significantly, stock-based compensation recorded for future awards may differ materially from that recorded for awards granted previously.

The determination of the estimated value per share of our common stock prior to our initial public offering is discussed below. We use the average volatility of similar publicly traded companies as an estimate for our estimated volatility. For purposes of determining the expected term of the awards in the absence of sufficient historical data relating to stock-option exercises for our company, we apply a simplified approach in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award. The risk-free interest rate for periods within the expected life of an award, as applicable, is based on the United States Treasury yield curve in effect during the period the award granted. Our estimated dividend yield is zero, as we have not and do not currently intend to declare dividends in the foreseeable future.

Once we have determined the estimated fair value of our stock-based awards, we recognize the portion of that value that corresponds to the portion of the award that is ultimately expected to vest, taking estimated forfeitures into account. This amount is recognized as an expense over the vesting period of the award using the straight-line method. We estimate forfeitures based upon our historical experience, and, at each period, review the estimated forfeiture rate and make changes as factors affecting the forfeiture rate calculations and assumptions change.

Table of Contents

Information related to our stock-based compensation activity, including weighted average grant date fair values and associated Black-Scholes option-pricing model assumptions, is as follows:

	Year ended December 31,		
	2008	2009	2010
Stock options granted (in thousands)	1,053	581	2,365
Weighted average exercise price	$ 0.53	$ 1.26	$ 4.67
Weighted average grant date fair value per share of stock options granted	$ 0.33	$ 0.73	$ 3.34
Weighted average Black-Scholes model assumptions:			
Estimated fair value of common stock	$ 0.53	$ 1.26	$ 5.17
Estimated volatility	71.0%	61.6%	59.3%
Estimated dividend yield	%	%	%
Expected term (years)	5.8	5.8	6.0
Risk-free rate	1.7%	2.9%	2.0%

Significant Factors, Assumptions and Methodologies Used in Determining Fair Value of Common Stock

Given the absence of an active market for our common stock prior to our initial public offering, our board of directors was required to estimate the fair value of our common stock at the time of each grant of stock-based awards. Since 2007, our management regularly commissioned an independent third party valuation firm to prepare contemporaneous valuation analyses near the time of each grant to assist our board of directors in this determination. The board of directors was informed of the most recent available valuation analysis prior to each grant date and considered that valuation along with other relevant objective and subjective factors it deemed important in each valuation, exercising significant judgment and reflecting the board of director s best estimates at the time. These factors included:

independent third-party valuations performed contemporaneously or within a short period of time of the grant date, as applicable;

the nature and history of our business;

our operating and financial performance;

general economic conditions and the specific outlook for our industry;

significant new client sales by us and by our competitors and our competitive position in general;

the lack of liquidity for our non-publicly traded common stock;

the market price of companies engaged in the same or similar lines of business whose equity securities are publicly traded in active trading markets;

the differences between our preferred and common stock in terms of liquidation preferences, conversion rights, voting rights and other features; and the likelihood of achieving different liquidity events or remaining a private company.

We performed the valuations of our common stock in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. We first determined our business enterprise value and then allocated this business enterprise value to each part of our capital structure, both preferred stock and common stock. We determined enterprise value using a combination of two generally accepted approaches, the market-based approach and the income approach.

51

Table of Contents

The market-based approach measures the value of an asset or business through an analysis of recent sales or offerings of comparable investments or assets. In our case, we focused on comparing our company to publicly traded comparable companies, or our Benchmarked Companies.

When considering which companies to include in our Benchmarked Companies, we focused on United States based publicly traded software companies that primarily deliver software using the SaaS business model, as we do. As the comparable companies have a similar business model to us, delivering software-as-a-service, we believe our cost structures are similar. When selecting companies to be included as our Benchmarked Companies we considered industry information available for SaaS companies. The selection of Benchmarked Companies requires us to make judgments as to the comparability of these companies to us. We also considered a number of factors including the type of SaaS service offering, the stage of development and the size of the companies. Additionally, we considered companies with which our underwriters had compared us. Several of the Benchmarked Companies are competitors that deliver e-learning and/or talent management solutions. While the Benchmarked Companies are generally larger than us in terms of total revenue and assets, several of the companies, like us, are in the investment and growth stage and have experienced operating losses while they have been growing their businesses. Also, several of the comparable companies completed initial public offerings in recent years. The selection of Benchmarked Companies changes over time based on whether we believe the selected companies remain comparable to us. Based on these considerations, we believe that the companies we selected are a representative group for purposes of performing valuations.

In applying the market-based approach, we derived revenue multiples by first obtaining the stock price and market capitalization for each of the Benchmarked Companies. We then calculated an estimated enterprise value for each company by making certain adjustments to market capitalization based on reviews of the balance sheets for each of the companies. Next we obtained prior year, current year and two future year revenue estimates for each of the companies from market or industry information and calculated revenue multiples for each year by dividing each company s calculated enterprise value by their revenue estimates. We then evaluated the revenue multiples for the Benchmarked Companies and adjusted those multiples based on our assessment of the strengths and weaknesses of our company relative to these comparable companies. Next we applied the adjusted multiple to our own revenue data to arrive at a valuation of our company.

Given our significant focus on investing in and growing our business, we primarily utilized the revenue multiple when performing our valuation assessment under the market-based approach. Because we are incurring operating losses and negative operating cash flows as we grow and invest in our business, we believe that a revenue multiple is the most useful metric to use when estimating our value as compared to other companies. In addition, our Benchmarked Companies are also at varying stages of growth and investment, further demonstrating why we believe that earnings or cash flow multiples were not considered as relevant. The selection of Benchmarked Companies and revenue multiples are significant inputs into our valuation analyses and as noted in the discussion of our valuation results from period to period that follows, significantly impacted the growth in the valuation of our common stock during the third quarter of 2010.

The income approach estimates value based on the expectation of future net cash flows, which are then discounted back to the present using a rate of return derived from alternative companies of similar type and risk profile. Our use of the market-based approach and income approach methods resulted in fair values for our common stock that were consistent with each other at each valuation date.

For each valuation, we prepared a financial forecast to be used in both the market-based approach and income approach. The financial forecast took into account our past financial results, our business experiences and our future expectations. We assessed the risk associated with achieving our

Table of Contents

forecast in selecting appropriate multiples and discount rates. There is inherent uncertainty in these estimates, as the assumptions we used were highly subjective and subject to changes as a result of new operating data and economic and other conditions that impact our business.

We then used a probability-weighted expected return method to allocate our business enterprise value determined under the market-based and income approaches to each part of our capital structure. This probability-weighted expected return method included the following steps:

- we estimated the timing of each possible liquidity outcome and its future value. In our analysis, we considered potential liquidity scenarios related to an initial public offering, staying private, a merger or sale, and a dissolution. We based the anticipated timing of such potential liquidity events primarily on our then-current plans and associated risks, as estimated by our board of directors and management;

- we determined the appropriate allocation of value to the common stockholders under each liquidity scenario based on the rights and preferences of each class and series of our stock at that time;

- we multiplied the resulting value of our common stock under each scenario by a present value factor, calculated based on an estimated weighted average of our cost of capital and the expected timing of the event;

- we then multiplied the present value of our common stock under each scenario by an estimated relative probability determined by our management and board of directors of each scenario occurring; and

- we then calculated the probability-weighted value per share of our common stock.

In order to determine the fair value of our common stock, we applied a discount for lack of marketability to the value derived from the probability-weighted expected return method. After determining the fair value of our common stock, we then utilized a Black-Scholes option pricing model to estimate the fair value of our stock-based awards granted, with the fair value of our common stock as an input into model. See *Critical Accounting Policies and Estimates Stock-based Compensation* for further discussion of our valuation methodology for stock-based awards.

The table below sets forth the estimated fair value of our common stock at the end of each quarter from December 31, 2009 through December 31, 2010:

Date	Estimated Fair Value of common stock
December 31, 2009	$ 1.26
March 31, 2010	$ 1.65
June 30, 2010	$ 2.76
September 30, 2010	$ 6.51
December 31, 2010	$ 8.88

On March 31, 2011, the closing price of our common stock on the NASDAQ Global Market was $18.23 per share.

Table of Contents

The table below sets forth information regarding stock options for each grant date between January 1, 2009 and March 16, 2011:

Date of Grant	Number of shares	Exercise price	Adjusted exercise price	Estimated fair value of common stock	Intrinsic value(1)
December 31, 2009	581,000	$ 1.26		$ 1.26	
April 21, 2010	782,400	$ 1.65		$ 1.65	
September 20, 2010	628,118	$ 2.76	$ 5.93(2)	$ 6.51	$ 3.75
November 7, 2010	955,000	$ 6.51		$ 7.55	$ 1.04
January 14, 2011	419,628	$ 8.88		$ 8.88	
March 16, 2011	144,200	$ 13.00		$ 13.00	

(1) Represents the difference between the estimated fair value of our common stock and the exercise price.

(2) On November 19, 2010, we modified the exercise price of the then outstanding stock options from $2.76 per share to $5.93 per share. See *Critical Accounting Policies and Estimates Significant Factors, Assumptions and Methodologies Used in Determining Fair Value of Common Stock November 19, 2010 modification of exercise prices of September 20, 2010 option grants* for additional information.

In addition, on November 7, 2010, we granted 270,000 restricted stock units to certain executive officers, and on January 14, 2011, we granted 42,000 restricted stock units to certain employees and executive officers.

On July 1, 2011, we granted options to purchase 225,750 shares of our common stock at an exercise price of $17.92 per share, which equaled the closing price of our common stock on the date of grant.

The following specific items were considered and determinations made in assessing the fair value of our common stock at each of the option grant dates prior to our initial public offering:

Option Grants on December 31, 2009

Our board of directors granted options to purchase 581,000 shares of common stock with an exercise price per share of $1.26 on December 31, 2009. In estimating the fair value of the common stock to set the exercise price of such options as of December 31, 2009, the board of directors reviewed and considered a final draft of an independent valuation report for our common stock as of September 30, 2009. The independent valuation report was finalized on January 12, 2010 and reflected a fair value for our common stock of $1.26 as of September 30, 2009. Our board of directors determined that there were no significant factors affecting the value of our common stock that occurred between September 30, 2009 and December 31, 2009. In addition, at the time of the December 31, 2009 grants, management had determined that we would likely meet its revenue goals for 2009, which were already considered and incorporated into the September 30, 2009 independent valuation report that was finalized on January 12, 2010. The primary valuation considerations were:

- A business enterprise equity value of $83.4 million as of the independent valuation report date, which was determined based on a combination of the market-based and income approaches using the probability-weighted expected return method.
- A discount rate of 30%, based on our estimated weighted average cost of capital.
- A lack of marketability discount of 25%.

Liquidity event scenario probabilities of 20% for an initial public offering, 40% for a sale or merger, and 35% for continuing as a private company. A dissolution scenario was deemed unlikely and was thus assigned only a 5% probability. Our board of directors determined that stock market conditions in general, and the market for initial public offerings in particular, were such that it was unlikely that we would be able to undertake an offering in 2010 and that there was only a 20% probability that we would be able to successfully complete an offering in 2011 or 2012.

A relatively flat performance by the Benchmarked Companies for the quarter ended December 31, 2009 and no significant change in other factors that would warrant a change in valuation.

The macro-economic conditions at the time, with uncertainty as to whether the overall economy would rebound in 2010, and the uncertainty as to the impact of the recession on the purchasing patterns of our customer base.

Option Grants on April 21, 2010

The board of directors granted options to purchase 782,400 shares of common stock with a per share price of $1.65 on April 21, 2010. In estimating the fair value of our common stock, our board of directors reviewed and considered an independent valuation, which was completed on April 21, 2010, that determined that the fair value of the common stock was $1.65 per share as of March 31, 2010, an increase of 31% from $1.26 at December 31, 2009. The primary valuation considerations were:

A business enterprise equity value of $107.2 million as of the valuation date, which was determined using the probability-weighted expected return method.

A discount rate of 30%, based on our estimated weighted average cost of capital.

A lack of marketability discount of 25%.

Liquidity event scenario probabilities of 35% for an initial public offering, which included an early initial public offering date of March 2011 and a late initial public offering date of March 2012, 25% for a sale or merger, and 35% for continuing as a private company. A dissolution scenario was deemed unlikely and thus assigned only a 5% probability. The aggregate probability for an initial public offering increased and the probability for a sale or merger decreased during the quarter as we commenced preliminary discussions with underwriters about exploring an initial public offering in 2011. Our board of directors also considered the general initial public offering market for small technology companies, which our board of directors determined was still not strong by virtue of the small number of public offerings in the first quarter of 2010. The board of directors also estimated that our initial public offering could not be completed until March 2011 at the earliest.

Our strong performance during the first quarter of 2010 and an improved revenue outlook for our business was offset by revenue multiples among our Benchmarked Companies that remained relatively flat during the quarter.

The increase in the estimated fair value of the common stock from December 31, 2009 to March 31, 2010 was primarily due to application of relatively similar revenue multiples as used in the prior independent valuation report of our Benchmarked Companies to our higher revenue forecast, resulting from our recent growth. In addition, the estimated fair value of our common stock increased due to the assignment of a higher probability for an initial public offering compared to the prior independent valuation report due to a relative reduction in risk associated with the overall macroeconomic uncertainty that existed at December 31, 2009.

Option Grants on September 20, 2010

Our board of directors granted options to purchase 628,118 shares of common stock with a per share price of $2.76 on September 20, 2010. On November 19, 2010, we modified the exercise price

of the then outstanding stock options from $2.76 per share to $5.93 per share. See *Critical Accounting Policies and Estimates Significant Factors, Assumptions and Methodologies Used in Determining Fair Value of Common Stock November 19, 2010 modification of exercise prices of September 20, 2010 option grants* for additional information. In originally estimating the fair value of our common stock to set the exercise price of such options, our board of directors reviewed and considered the most recent independent valuation report valuing our common stock as of June 30, 2010. The report, finalized on September 17, 2010, determined that the fair value of our common stock was $2.76 as of June 30, 2010, an increase of 67% from $1.65 at March 31, 2010. The primary valuation considerations were:

A business enterprise equity value of $151.7 million as of June 30, 2010 which was determined using the probability-weighted expected return method and represented an increase in value of $44.5 million since the March 31, 2010 independent valuation report.

A discount rate of 25%, based on our estimated weighted average cost of capital. The discount rate declined from our prior independent valuation report due to the continued growth of our business and a reduction in the time to the expected initial public offering.

A lack of marketability discount of 15%. The decline in the lack of marketability discount from our prior independent valuation report was attributed to the growth of our business and a reduction in time to the expected initial public offering.

Liquidity event scenario probabilities of 45% for an initial public offering, 15% for a sale or merger, and 35% for continuing as a private company. A dissolution scenario was deemed unlikely and assigned only a 5% probability. The probability of an initial public offering increased due to progress in our business which indicated that an initial public offering in 2011 was more likely than previously estimated. In determining the probabilities, our board of directors determined that the initial public offering market appeared to be improving during the second quarter of 2010 and on June 29, 2010 management began to discuss an initial public offering with investment banks, which lead to the selection of investment banks in July 2010.

Our operating performance during the three months ended June 30, 2010 and through the period ended September 20, 2010 primarily attributable to closing significant contracts with new customers, additional sales to existing customers and growth internationally. As a result, we also increased our financial forecasts for 2010 and 2011 from our prior forecasts.

Subsequent Valuation at September 30, 2010 for Financial Reporting Purposes

As part of our financial reporting process for the third quarter of 2010, we obtained an independent valuation of our common stock as of September 30, 2010. The report, finalized on November 7, 2010, determined that the fair value of our common stock was $6.51 as of September 30, 2010, an increase of 136% from $2.76 at June 30, 2010. The primary valuation considerations cited in the report were:

A business enterprise equity value for us of $331.9 million as of September 30, 2010, determined using the probability-weighted expected return method driven primarily by a significant increase in our revenue multiple, as the revenue multiples of SaaS companies overall and of our specific Benchmarked Companies in particular had increased significantly during the third quarter of 2010 as described below.

A discount rate of 20%, based on our estimated weighted average cost of capital. The discount rate declined from our prior independent valuation report due to growth of our business and a reduction in the time to the expected initial public offering.

A lack of marketability discount of 12.5%. The decline in the lack of marketability discount from our prior independent valuation report was attributed to growth of our business and a reduction in time to the expected initial public offering.

56

Table of Contents

Liquidity event scenario probabilities of 65% for an initial public offering, 20% for a sale or merger, and 15% for continuing as a private company. A dissolution scenario was deemed by our board of directors as very unlikely and assigned a zero probability. On September 29, 2010, we filed a Registration Statement with the SEC, making an initial public offering in 2010 a possibility and increasing the likelihood that an initial public offering would occur at some point.

A change in the specific comparable companies included in our Benchmarked Companies to a refined group of companies which included certain higher-growth SaaS companies and fewer lower-growth SaaS companies. Our board of directors determined that our Benchmarked Companies should be changed to exclude certain lower-growth SaaS companies and to primarily include higher-growth SaaS companies based on their view that our growth rate was comparable to the growth rates of certain higher-growth SaaS companies. This change increased the revenue multiple applied to our forecasted revenue in determining our value.

In addition to the change in our Benchmarked Companies described above, there was also a significant increase in market values for companies in general, and thus an increase in revenue multiples for the entire market during the quarter ended September 30, 2010. Our Benchmarked Companies experienced even larger increases in market value than the general market, and thus correspondingly larger increases in revenue multiples during the third quarter of 2010. Our board of directors determined that when selecting an appropriate revenue multiple for valuation purposes we should use the high-end of revenue multiples for the Benchmarked Companies, as compared to the median or mean multiples that were used for prior valuations.

The October 29, 2010 information provided by our lead underwriters as to their view of the possible estimated initial public offering price range for a potential December 2010 offering, based upon revenue and free cash flow multiples of a set of companies they considered comparable. The information regarding the estimated price range and underlying valuation provided by our underwriters was separate and independent from our valuation described above, and was also subject to additional considerations such as changes in market conditions. Although this discussion took place after the September 30, 2010 valuation date, we nonetheless considered this information and applied it retrospectively as we finalized our September 30, 2010 valuation.

As a result of the September 30, 2010 valuation and in light of the proposed initial public offering timing, for financial reporting purposes, we retrospectively applied the September 30, 2010 valuation of $6.51 per share to determine the fair value of our stock option awards granted on September 20, 2010.

Option and Restricted Stock Unit Grants on November 7, 2010

Our board of directors granted options to purchase 955,000 shares of common stock with an exercise price per share of $6.51 and restricted stock units for 270,000 shares of common stock on November 7, 2010. To estimate the fair value of our common stock, our board of directors reviewed and considered the contemporaneous independent valuation report as of September 30, 2010 discussed above, which was finalized on November 7, 2010.

Subsequent Considerations for Financial Reporting for November 7, 2010 grants

Subsequent to the November 7, 2010 grant date, in determining the value of our common stock for financial reporting purposes, we considered additional information:

We continued to move forward with our initial public offering process and believed that a December initial public offering might be possible.

The general stock market and the stock prices for the Benchmarked Companies continued to be strong in October 2010 and early November 2010. The average increase in value of the Benchmarked Companies stock was approximately 16% between September 30, 2010 and November 7, 2010.

Table of Contents

As a result of the above factors, after further considering the valuation range provided by the underwriters in November 2010, we estimated the fair value of our common stock at $7.55 per share for financial reporting purposes and retrospectively used this value to determine the fair value of our stock option awards and restricted stock units granted on November 7, 2010.

November 19, 2010 modification of exercise prices of September 20, 2010 option grants

In light of the difference between the original exercise price of the options granted on September 20, 2010 and the September 30, 2010 valuation, on November 19, 2010, our board of directors modified the exercise price of the options granted on September 20, 2010 to increase the exercise price from $2.76 to $5.93 per share. This new price was based on the board of director s review and consideration of a retrospective independent valuation as of September 20, 2010. In determining the modified $5.93 per share exercise price for the September 20, 2010 option grants, our board of directors also considered the contemporaneously determined $6.51 per share valuation at September 30, 2010.

Our board of directors determined that a difference in the value of our common stock between September 20, 2010 and September 30, 2010 was appropriate primarily because of the following:

- The initial filing of our registration statement with the SEC for an initial public offering did not take place until September 29, 2010, which increased the likelihood that we would be able to achieve an initial public offering at some point in the future;

- Since the third quarter of 2010 was not fully completed as of September 20, 2010, we were not certain that we would meet our forecast for the quarter at that date.

No incremental stock-based compensation was recognized as a result of the modification to these awards.

Option and Restricted Stock Unit Grants on January 14, 2011

Our board of directors granted options to purchase 419,628 shares of common stock with an exercise price per share of $8.88 and restricted stock units for 42,000 shares of common stock on January 14, 2011. To estimate the fair value of our common stock, our board of directors reviewed and considered an independent valuation, which was completed on January 12, 2011, that determined that the fair value of our common stock at December 31, 2010 was $8.88 per share, an increase of 36.4% from $6.51 at September 30, 2010. The primary valuation considerations were:

- An increase of $89.8 million, or 27%, in our business enterprise equity value to $421.7 million as of December 31, 2010 compared to $331.9 million at September 30, 2010, determined using the probability-weighted expected return method. The increase was driven by both an increase in the general stock market during the fourth quarter of 2010 and an increase in the market for SaaS companies during the same period. In addition, we anticipated an increased likelihood of completing an initial public offering, as further described below, and we achieved annual revenue growth of 59%, before a $2.9 million non-cash reduction of revenue relating to the ADP warrant that was recorded in the fourth quarter of 2010. There were no similar reductions of revenue in prior periods.

- A discount rate of 20%, based on our estimated weighted average cost of capital. The discount rate remained consistent with our immediately prior independent valuation.

- A lack of marketability discount of 5%. The decline in the lack of marketability discount from our immediately prior independent valuation resulted from our estimate of an increase in the likelihood of completing an initial public offering in the near term.

Liquidity event scenario probabilities of 90% for an initial public offering and 10% for a sale or merger. Given our continued execution of our business plan, revenue growth and progression towards an initial public offering, we determined that continuing as a private company was no longer likely, and we therefore assigned a zero probability to this scenario. The probability for an initial public offering increased from 65% at September 30, 2010 to 90% at December 31, 2010 based on an increased likelihood of completing an initial public offering, with a greater than 50% estimate of completing an initial public offering in the near term.

The general strength of the stock market in the fourth quarter of 2010, including a greater than 20% increase in market values for our Benchmarked Companies from September 30, 2010.

As a result of the above factors, and considering our estimated initial public offering price in this offering, we estimated the fair value of our common stock at $8.88 per share at December 31, 2010 and used this value to determine the fair value of our stock option awards and restricted stock units granted on January 14, 2011. The aggregate grant date fair value of these awards was $2.4 million, which is expected to be recognized over a period of four years that commenced in the first quarter of 2011.

Stock Issued on February 28, 2011

Subsequently, on February 28, 2011, our board of directors issued 20,000 shares of common stock to a non-profit organization. The fair value of the shares was approximately $0.2 million.

Option Grants on March 16, 2011

Effective March 16, 2011, our board of directors granted options to purchase 144,200 shares of common stock with an exercise price per share of $13.00, the offering price in our initial public offering. The aggregate grant date fair value of these awards was approximately $1.0 million, which is expected to be recognized over a period of four years.

Allowance for Doubtful Accounts

On a quarterly basis we evaluate the need to establish an allowance for doubtful accounts, by analyzing our clients creditworthiness. Our evaluation and analysis includes specific identification and review of all outstanding accounts receivable balances, review of our historical collection experience with each client, and consideration of overall economic conditions, as well as of any specific facts and circumstances that may indicate that a specific client receivable is not collectible. We make judgments as to our ability to collect outstanding receivables and establish an allowance when collection becomes doubtful. At December 31, 2009 and 2010 and March 31, 2011, our allowance for doubtful accounts was $0, $32,000 and $106,000, respectively, based on our evaluation and analysis. If our future actual collections are lower than expected, our cash flows and future results of operations could be negatively impacted.

Capitalized Software Costs

We capitalize the costs associated with software developed or obtained for internal use, including costs incurred in connection with the development of our solution, when the preliminary project stage is completed, management has decided to make the project a part of our future solution offering, and the software will be used to perform the function intended. These capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, personnel and related expenses for employees who are directly associated with, and who devote time to, internal-use software projects and, when material, interest costs incurred during the development.

Table of Contents

Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for upgrades and enhancements to our solution are also capitalized. Post-configuration training and maintenance costs are expensed as incurred. Capitalized software costs are amortized to cost of revenue using the straight-line method over an estimated useful life of the software of three years, commencing when the software is ready for its intended use.

Impairment of Long Lived Assets

To date, we have identified no impairments of our long-lived assets. We assess the recoverability of our long-lived assets when events or changes in circumstances indicate their carrying value may not be recoverable. We assess recoverability by determining whether the carrying value of these assets can be recovered through projected undiscounted cash flows over their remaining lives. If the carrying value of the assets exceeds the forecasted undiscounted cash flows, we recognize the impairment, measured as the amount by which the carrying value exceeds fair value, and charge it to operations in the period in which we determine there has been impairment.

Income Taxes

We use the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities, using tax rates expected to be in effect during the years in which the bases differences are expected to reverse. We record a valuation allowance when it is more likely than not that some of our net deferred tax assets will not be realized. In determining the need for valuation allowances, we consider our projected future taxable income and the availability of tax planning strategies. We have recorded a full valuation allowance to reduce our net deferred tax assets to zero, because we have determined that it is not more likely than not that any of our net deferred tax assets will be realized. If in the future we determine that we will be able to realize any of our net deferred tax assets, we will make an adjustment to the allowance, which would increase our income in the period that the determination is made.

We have assessed our income tax positions and recorded tax benefits for all years subject to examination, based upon our evaluation of the facts, circumstances and information available at each period end. For those tax positions where we have determined there is a greater than 50% likelihood that a tax benefit will be sustained, we have recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where we have determined there is a less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized in our financial statements.

Fair Value of Warrants

Warrants to purchase common stock

We have issued warrants to purchase our common stock in connection with debt arrangements and our purchase of certain domain names. We accounted for these warrants at fair value upon issuance in stockholders equity, based on the specific terms of each warrant.

Under our agreement with ADP, we had an obligation to issue to ADP, on an annual basis, fully vested and immediately exercisable ten-year warrants to purchase between zero and 886,096 shares of our common stock at an exercise price of $0.53 per share, based upon tiers of sales targets ADP achieved during each contract year until the earlier of the end of the five-year term of our distributor agreement or the completion of our initial public offering. The warrants terminate upon the earlier of immediately prior to an acquisition of our company or other disposition of all our assets or three years after our initial public offering. Through December 31, 2009 and the nine months ended September 30, 2010, no warrants were issued to ADP, and no reductions of revenue were recorded, based on our conclusion that the defined targets had not been met by ADP. In the quarters ended December 31, 2010 and June 30, 2011, we recorded a $2.9 million and a $2.5 million, respectively, reduction of revenue related to the issuance of warrants to ADP. ADP is no longer eligible to earn or receive any additional warrants exercisable for shares of our common stock pursuant to the distributor agreement. See *Critical Accounting Policies and Estimates Offsets to Revenue* for additional information about warrants under the ADP agreement.

The fair value of warrants issued to ADP was recorded as a reduction of revenue when the warrants were issued. We determined the fair value of these warrants using a Black-Scholes option-pricing model, which incorporated several estimates and assumptions that were subject to significant management judgment.

Warrants to purchase preferred stock

Prior to our initial public offering, we issued warrants to purchase our preferred stock in connection with debt arrangements and preferred stock financings. We accounted for these warrants as liabilities at fair value in each reporting period, because the underlying shares of convertible preferred stock were redeemable or contingently redeemable, including in the case of a deemed liquidation, which may have obligated us to transfer assets to the warrant holders at some point in the future.

As with the ADP warrants and stock-based compensation, we estimated the fair value of our preferred stock warrants using the Black-Scholes option-pricing model, which incorporated several estimates and assumptions that are subject to significant management judgment. Changes in fair value at each period end were recorded in other income (expense) in our statement of operations until the completion of our initial public offering.

All of the warrants to purchase preferred stock were exercised in March 2011, and we recorded changes to the fair value of the warrants through the respective warrant exercise dates. Upon the completion of our initial public offering, all of our then-outstanding shares of preferred stock, including shares of preferred stock issued upon the exercise of our preferred stock warrants, were converted into shares of common stock on a one-for-one basis. We will no longer record any changes in the fair value of these warrant liabilities in our statements of operations.

Recent Accounting Pronouncements

Effective January 2010, we adopted ASU No. 2010-06, *Fair Value Measurements and Disclosures,* which requires previous fair value hierarchy disclosures for certain balance sheet items to be further disaggregated by class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the balance sheet. In addition, significant reclassifications between Levels 1 and 2 of the fair value hierarchy are required to be disclosed. These additional requirements became effective January 1, 2010 for quarterly and annual reporting. Their adoption did not have any impact on our financial statements. In addition, ASU 2010-06 requires companies to present separately in the Level 3 reconciliation information about purchases, sales, issuances and settlements. This disclosure change was effective for interim and annual reporting periods beginning after December 15, 2010. We adopted this guidance as of January 1, 2011 and the adoption did not have a material impact on our financial statements.

Table of Contents

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* This update requires companies to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for companies to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This guidance is effective for fiscal periods beginning after December 15, 2011, with earlier adoption permitted. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations, or cash flows; however, as a result of such adoption, we will change the presentation of comprehensive income, as we currently present comprehensive income as part of stockholders equity.

Results of Operations

The following table sets forth our statements of operations for each of the periods indicated in dollars (in thousands) and as a percentage of revenue. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Gross revenue[1]	$ 19,626	$ 29,322	$ 46,608	$ 9,670	$ 15,747
Common stock warrant charge[1]			(2,877)		
Net revenue	19,626	29,322	43,731	9,670	15,747
Cost of revenue	6,116	8,676	14,280	3,064	4,579
Gross profit	13,510	20,646	29,451	6,606	11,168
Operating expenses:					
Sales and marketing	16,914	18,886	28,134	6,366	9,845
Research and development	2,724	2,791	5,602	1,004	2,322
General and administrative	2,564	4,329	8,555	1,416	3,553
Total operating expenses	22,202	26,006	42,291	8,786	15,720
Loss from operations[1]	(8,692)	(5,360)	(12,840)	(2,180)	(4,552)
Other income (expense):					
Interest income (expense) and other income (expense), net	(639)	(813)	(1,320)	(335)	(448)
Change in fair value of preferred stock warrant liabilities	(790)	(2,147)	(34,073)	(1,272)	(42,559)
Loss before provision for income taxes	(10,121)	(8,320)	(48,233)	(3,787)	(47,559)
Provision for income taxes	(62)	(72)	(137)	(30)	(34)
Net loss	$ (10,183)	$ (8,392)	$ (48,370)	$ (3,817)	$ (47,593)

(1) During the fourth quarter of 2010, we recorded a $2.9 million reduction of revenue associated with a common stock warrant. There were no reductions of revenue in all other periods presented. We have presented gross revenue excluding this non-cash common stock warrant charge, because this charge does not relate to sales activity in the period, and we do not consider the issuance of warrants to be indicative of our core operating performance. See *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Offsets to Revenue* for additional information about common stock warrants that are accounted for as reductions of revenue.

Table of Contents

Comparison of Three Months Ended March 31, 2010 and 2011

Revenue and Metrics

The following table sets forth our revenue and the following key metrics that we use to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions as of and for the three months ended March 31, 2010 and 2011:

	At or For the Three Months Ended March 31,	
	2010	**2011**
Net revenue (in thousands)	$ 9,670	$ 15,747
Gross revenue (in thousands)	$ 9,670	$ 15,747
Bookings (in thousands)	$ 9,237	$ 14,332
Number of clients	310	562
Number of users (rounded to nearest thousand)	3,773,000	5,221,000

Revenue increased $6.1 million, or 63%, for the three months ended March 31, 2011 as compared to the same period in 2010. Revenue growth in the three months ended March 31, 2011 was driven by $5.5 million in additional revenue from client agreements signed in prior periods that was not fully reflected in those periods, as a result of the seasonality of when we enter into new client agreements and our revenue recognition policy, which generally recognizes subscription revenue over the contract period. Revenue for the three months ended March 31, 2011 from client agreements signed prior to 2011 was $14.3 million, compared to revenue for the first three months of 2010 from client agreements signed prior to 2010 of $8.8 million. To a lesser extent, revenue increased for the three months ended March 31, 2011 as compared to the same period in 2010 from sales of additional platforms to existing clients and additions of incremental users by existing clients. Revenue in the United States increased by $4.2 million, or 60%, for the three months ended March 31, 2011 as compared to the same period in 2010, while international revenue, increased by $1.9 million, or 70%. The increase in international sales was mainly attributable to the acquisition of 33 new international clients during the period from March 31, 2010 through March 31, 2011. As a percentage of total revenue, international revenue accounted for 30% in the three months ended March 31, 2011 as compared to 28% in the same period in 2010.

Bookings increased 55% due to increased revenues of $6.1 million for the three months ended March 31, 2011 compared to the same period in 2010, partially offset by a decrease in deferred revenue at March 31, 2011 and March 2010 compared to December 31, 2010 and December 31, 2009, respectively. The increase in revenue was due to the factors discussed above. The growth rates for revenue and bookings are not correlated with each other in a given year due to the seasonality of when we enter into client agreements, the varied timing of billings, the recognition in most cases of subscription revenue on a straight-line basis over the term of each client agreement, and the recognition of consulting revenue based on proportional performance over the period the services are performed. The number of our clients grew 81% at March 31, 2011 compared to March 31, 2010 and 17% compared to December 31, 2010. The number of users increased 38% at March 31, 2011 compared to March 31, 2010 and 6% compared to December 31, 2010, due primarily to the acquisition of new clients, although we also increased the number of users within existing clients.

Table of Contents

Cost of Revenue and Gross Margin

	Three Months Ended March 31,	
	2010	2011
	(dollars in thousands)	
Cost of revenue	$ 3,064	$ 4,579
Gross profit	$ 6,606	$ 11,168
Gross margin	68%	71%

Cost of revenue increased $1.5 million, or 49%, for the three months ended March 31, 2011 as compared to the same period in 2010, attributable to $0.7 million in increased employee-related costs due to higher headcount and $0.4 million in increased costs related to outsourced consulting services, in each case to service our existing clients and support our continued growth. We also incurred $0.1 million in increased depreciation expenses, $0.1 million in increased third-party e-learning costs, $0.1 million in increased amortization of capitalized software, and $0.1 million in increased allocated overhead such as rent, IT costs, depreciation and amortization and employee benefits costs.

Our gross margin, increased to 71% for the three months ended March 31, 2011 as compared to 68% in the same period in 2010. The increase was attributable to increased revenue and our realization of economies of scale in our consulting services and network infrastructure, as we have emphasized continuous improvement in processes for delivering client implementation and support programs.

Sales and Marketing

	Three Months Ended March 31,	
	2010	2011
	(dollars in thousands)	
Sales and marketing	$ 6,366	$ 9,845
Percent of revenue	66%	63%

Sales and marketing expenses increased $3.5 million, or 55%, for the three months ended March 31, 2011 as compared to the same period in 2010. The increase was attributable to the expansion of our sales force and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing at March 31, 2011 increased 51% compared to March 31, 2010, contributing to an increase in employee-related costs of $2.5 million, consisting of increased employee compensation and benefits of $1.8 million, increased commissions of $0.5 million, and increased stock-based compensation of $0.2 million. In addition, we incurred increased allocated overhead costs, such as rent, IT costs, and depreciation and amortization, of $0.4 million, increased travel costs associated with our direct sales teams of $0.3 million, and increased costs associated with outsourced marketing programs and events of $0.2 million.

As a percentage of revenue, sales and marketing expenses decreased by 3% for the three months ended March 31, 2011 compared to the same period in 2010. Sales and marketing expenses may fluctuate from period to period based on the timing of our investments and related expenditures in our sales and marketing programs, as they vary in scope and scale over periods compared to the changes in revenue.

Table of Contents

Research and Development

	Three Months Ended March 31, 2010	2011
	(dollars in thousands)	
Research and development	$ 1,004	$ 2,322
Percent of revenue	10%	15%

Research and development expenses increased by $1.3 million, or 131%, for the three months ended March 31, 2011 as compared to the same period in 2010. The increase was principally due to a 75% increase in research and development headcount at March 31, 2011 compared to March 31, 2010 to maintain and improve the functionality of our solution. As a result, we incurred increased employee-related costs of $0.9 million arising primarily from increased headcount, consisting of increased employee compensation and benefits of $0.8 million and increased stock-based compensation of $0.1 million. In addition, in 2011 we incurred increased expenses of allocated overhead costs, such as rent, IT costs, and depreciation and amortization, of $0.2 million relating to overall increased expenses to support our continued growth and an increased expense of $0.1 million related to external consultants.

We capitalize a portion of our software development costs related to the development and enhancements of our solution, which are then amortized to cost of revenue. The timing of our capitalizable development and enhancement projects may affect the amount of development costs expensed in any given period. We capitalized $0.7 million and $0.4 million of software development costs and amortized $0.4 million and $0.3 million in the three months ended March 31, 2011 and March 31, 2010, respectively.

As we mature as a company, we expect our headcount in research and development to increase. However, we also expect the portion of employee-related costs as a percentage of total development resources that are capitalized as capitalized software costs to decrease.

General and Administrative

	Three Months Ended March 31, 2010	2011
	(dollars in thousands)	
General and administrative	$ 1,416	$ 3,553
Percent of revenue	15%	23%

General and administrative expenses increased by $2.1 million, or 151% for the three months ended March 31, 2011 as compared to the same period in 2010. The increase was driven by increased employee-related costs and professional fees to support our growing business and status as a public company. We incurred increased employee-related costs of $0.9 million, consisting of increased employee compensation and benefits of $0.5 million and increased stock-based compensation expense of $0.4 million, as a result of increased headcount and corresponding stock-based compensation awards between March 31, 2010 and March 31, 2011. In addition, we had increased professional fees of $0.5 million for accounting, audit, legal and tax services, increased travel expenses of $0.3 million, and a non-cash expense of $0.2 million incurred with respect to the issuance of shares of our common stock to a non-profit organization as a charitable donation. General and administrative headcount increased by 63% at March 31, 2011 as compared to March 31, 2010, primarily in our accounting and finance department to support our growth and operations as a public company.

Table of Contents

Interest Income (Expense) and Other Income (Expense), Net

	Three Months Ended March 31,	
	2010	2011
	(dollars in thousands)	
Interest income (expense) and other income (expense), net	$ (335)	$ (448)

Interest income (expense) and other income (expense), net for the three months ended March 31, 2011 increased $0.1 million, or 34%, as compared to the same period in 2010. The increase was attributable to higher interest expense of $0.5 million as a result the write-off of the remaining $0.3 million of unamortized debt discount associated with the redemption of a senior subordinated promissory note held by Ironwood Equity Fund LP, increased interest expense of $0.1 million due to the contingent interest premium paid to Ironwood Equity Fund LP during March 2011 in connection with the redemption, and increased interest expense of $0.1 million as a result of increased borrowings under our credit facility during the three months ended March 31, 2011 compared to borrowings in the same period of 2010. These increases were partially offset by increased net foreign exchange gains of $0.4 million related to fluctuations in the British Pound and Euro in relation to the U.S. Dollar in the three months ended March 31, 2011 compared to the same period in 2010. For the three months ended March 31, 2011, we recorded foreign exchange gains of $0.2 million compared to foreign exchange losses of $0.2 million in the same period in 2010.